

Application made by the Law Society and the Solicitors Regulation Authority to the Legal Services Board under section 51 of the Legal Services Act 2007 for the approval of practising fees



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Practising Certificate Fee application 2011/12 for the Law Society Group

Section 1: Developing the application / Setting the Budget

Under the arrangements agreed between the Law Society and SRA, it is for the Law Society Council, having consulted the SRA Board, to determine the total amount to be raised from practising fees (PC fee). It is for the SRA to determine how the amount required for regulation should be apportioned between the different categories of fee payer.

In 2010 the SRA changed the mechanism for collecting the regulatory net funding requirement and Compensation Fund requirement. The regulatory funding was split into an individual fee (40% of total) and a firm fee (60% of total) based on turnover bandings. The SRA has decided to continue with this structure for the 2011/12 fee year. The Law Society has decided to adopt the same approach to apportionment of the sums required for the Law Society's other 'permitted purposes' under the Legal Services Act.

It is anticipated that during 2011/12 the Law Society will become a Licensing Authority under the Legal Services Act 2007. The SRA consulted on the fee structure for ABS and concluded in the light of that consultation that ABS firms should be charged a turnover based fee calculated, with some adaptation, on the same basis as traditional firms i.e. they will contribute towards 60% of the net regulatory funding requirement. ABS will be required, through the periodical fees, to contribute to the same costs as recognised bodies i.e. the cost of regulation, the cost of the Permitted Purposes activities provided by the Law Society, and the same levies. Therefore the same turnover table will apply to ABS as to recognised bodies

The Law Society Council approved a total of £94.8m to be collected from practising fees – a decrease from £127.3m collected in 2010/11, although it was intended to collect only £121.7m in 2010/11. The main reasons for the decrease include reduced pension provision due to closure of the defined benefit scheme, reduced spending on major programmes and the benefits realised from completion of those programmes. These factors are counter balanced by an increase in levies payable and the decision made last year by the SRA Board that some costs formerly borne by the Compensation Fund should in future be borne by the practising fee account.

The individual practising fee is £328. Private practice firms (including Licensed Bodies as they are authorised) will also pay a fee based on their UK turnover. The proportion of turnover charged declines as turnover increases.

The sum required for the Compensation Fund is £13.5m, up from £2.1m last year. This partly reflects the SRA decision to allocate only direct costs to the Compensation Fund, and partly that the prior year was unduly low as a result of trying to reduce the level of reserves in 2010/11.

The overall cost to the profession (including the Compensation Fund requirement) has fallen from £123.8m in 2010/11, to £108.3m in 2011/12, a reduction of 13 per cent. In addition to the factors noted above, this reflects continued stringent action to contain costs throughout all parts of the Law Society Group.

Although budgets for the Law Society Group in 2012 are not set until later in the year, it is anticipated at present that the practising fee income will be applied broadly as follows:

- Solicitors Regulation Authority - £53.4m¹
- The Law Society (professional body) - £21.9m1
- Statutory levies (Legal Services Board, Office for Legal Complaints, Solicitors Disciplinary Tribunal) - £25.1m.
-

Cash collected ahead of plan from 2010/11 contribute £5.6m towards this requirement leaving £94.8m to be collected from the profession.

The following fees require LSB approval:

- Individual regulatory fee
- Firm regulatory fee for both recognised bodies and licensed bodies(turnover bandings)
- Individual Compensation Fund contribution
- Firm Compensation Fund contribution for both recognised bodies and licensed bodies

Table 1: Fee levels

Practising Certificate Fee	2011/12 Budget year	2010/11 Current year	Variance (Number & %)	Commentary
Individual fee - Regulatory	£328	£428	- £100 - 23.4%	Reduced funding requirement
Firm fee (total £m to be collected)	£56.9m	£73.0m	- £16.1m - 22%	
Individual fee - Compensation fund	£60	£10	+ £50 + 500%	* See below
Firm fee - Compensation fund	£772	£120	+ £652 + 543%	

*The Compensation Fund contribution was exceptionally low in 2010/11 due to utilisation of reserves to reduce them to a level closer to the prudent minimum amount.

The budget setting process

The budget, or net funding requirement for the Law Society Group, is based around 2011 budget and looks forward to the next 3 years, i.e. the 2011/12 Practising Fee year and the following 2 years to take into account the short and medium term funding requirement. These budgets take into account the cost of regulating licensed bodies as far as can be anticipated at this time.

The process is worked through on a bottom up basis from both the SRA and the Law Society, starting with cost centres, business units and Directorates and it is at the Directorate level which the 2011/12 application is shown. The budget is submitted by each of the Directorates and entities and authorised by the Board of the relevant part of the Group with a full Law Society Group budget discussed and agreed by both the Law Society Management Board and the Law Society Council.

¹ Including Shared Services and Central Costs allocation

The budget setting approach

When setting practising fees levels we are working against anticipated budgetary figures which will not be finalised until November.

The net funding requirement is also produced in conjunction with the assumptions used on what elements of costs are recovered from the Compensation Fund. This changed in 2010/11 and again for the 2011/12 practising fee year as a result of the decision of the SRA Board to charge only direct costs to the Compensation Fund, but to phase that decision over two years.

Where actual information is known then this is used. Where information is not fully known at the time of creating the net funding requirement then assumptions are used based on a range of scenarios. It is these assumptions and scenarios which are agreed by each CEO and Board prior to submission to SRA Board, Law Society Management Board and the Law Society Council. Some examples of the issues for which assumptions need to be made are shown below:

- Number of interventions into firms.
- Claims on and costs to be recharged to the Compensation Fund.
- Likely impact of the introduction of alternative business structures.
- Benefits realisation of projects.
- Cost of group projects required.
- Interest rates, inflation rates and VAT assumptions.
- Impact of closure of defined benefit pension scheme.

There are a number of levy payments which are also included - namely those for the Legal Services Board, Legal Ombudsman and the Solicitors Disciplinary Tribunal. The funding requirement for these is based on funding requirement information from the relevant bodies. In translating the net funding requirement into proposed fees, we also need to make assumptions about:

- Number of practising certificates to be issued.
- The turnover from all firms within the Profession, which is based on information supplied by each of the firms as part of the 2010/11 renewal exercise.

Contingency arrangements

The SRA, like other parts of the Law Society group, is expected to live within its approved budget, re-prioritising if necessary should unexpected needs arise in year. However, if reprioritisation is not practical, the SRA can seek approval for additional funding. The Law Society currently has sufficient reserves to accommodate such requests if satisfied that they are justified.

The level of reserves at 31 December 2010 was c. £129m. Note however that the following calls on reserves are proposed:

- The buy-out of the defined benefit pension scheme of up to £60m
- Initial funding of the proposed midlands single site
- In place of budgeting for general contingencies, any forecast overspends on budget would be met by reserves (subject to approval)
- Any proposed project expenditure in excess of the £5m Group Project Investment Fund (GPIF) budget (subject to approval)

Strategic Plans

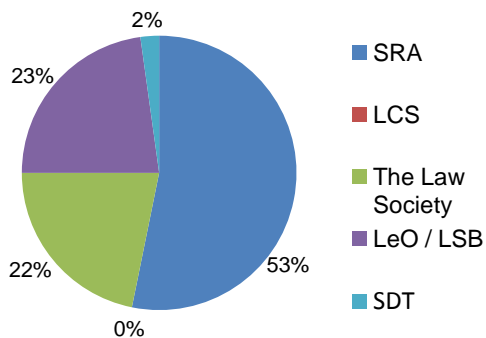
The impact of both the SRA Enabling Programme (which supports the introduction of new business processes, new IT, and new skills across the organisation) and the Law Society Blueprint has been taken into account, so far as information is currently known.

No allowance has currently been made for any surplus arising from new firms and Alternative Business Structures setting up in 2011 onwards due to the uncertainties. However any such surplus will be offset against the net funding requirement for 2013. Additionally no allowance has been included for a potential loss of firms to alternative regulators.

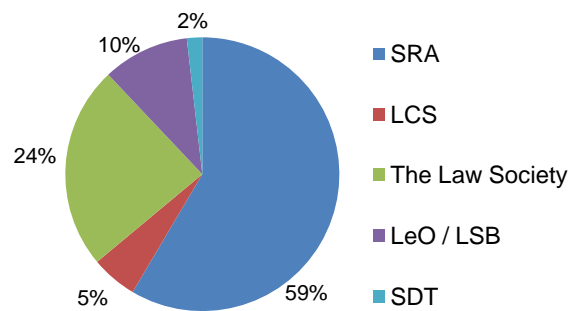
Table 2: Total PC fee income & expenditure (Permitted activities only)

Budget item	2011/12 Budget year	2010/11 Current year (budget)	Variance 2011/12 budget v 2010/11 budget	2011 Quarter 1 forecast	Commentary 2011/12 v 2010/11
Total PC fee income					
Total PC fee income	£94.8m	£121.2m	- £26.4m - 22%	£121.9m	
Split of PC fee expenditure					
Solicitors Regulation Authority	(£53.4m)	(£70.9m)	- £17.5m - 25%	(£69.8m)	Includes £19.9m central costs and shared service allocation (2011: £41.1m). Recoveries from the Compensation Fund £10.2m lower in 2012.
Legal Complaints Service	(£0.0m)	(£6.6m)	- £6.6m - 100%	(£6.1m)	Includes £0m central costs and shared service allocation (2011: £5.7m)
The Law Society (permitted purposes)	(£21.9m)	(£29.1m)	- £7.2m - 15%	(£29.3m)	Includes £8.5m central costs and shared service allocation (2011: £12.8m)
Legal Ombudsman (LeO), Legal Services Board (LSB)	(£22.9m)	(£12.4m)	+ £10.5m + 85%	(£12.4m)	
Solicitors Disciplinary Tribunal (SDT)	(£2.2m)	(£2.2m)	+ £0m + 0%	(£2.2m)	Subject to discussion with the SDT and LSB decision
Total	(£100.4m)	(£121.2m)	- £20.8m - 17%	(£119.8m)	Collection ahead of plan of £5.6m cash reduces the PC fee requirement in 2011/12

Total PCF income split by expenditure category - 2011/12



Total PCF income split by expenditure category - 2010/11



Section 2: Permitted purposes

During 2011, the Law Society Group reviewed all the group activities and allocated them between a) regulatory activities, b) permitted activities and c) non permitted activities. The definition of permitted purposes comes from the Practising Fee Rules 2009 made under the Legal Services Act 2007 (c.29), section 51(3) and (6). In getting to this point, the following methodology has been used and agreed with Management Board and Council. It is only the costs for permitted activities which are included within the net funding requirement and the practising fee.

A detailed study of the Law Society activities, covering both costs and revenues was performed, reviewed and signed off by the Law Society's Executive Management Board. Directorate and department costs were calculated initially based on the directly assignable costs and / or revenues along with an apportionment of shared services and central costs. Shared services and central costs have been allocated based on a number of drivers, mainly headcount.

Wherever applicable, the nature of income earned in business units was matched with an appropriate amount of costs required to generate a commercial return. This is especially relevant where the Law Society subsidises activities i.e. certain training events, and in this case the amount of costs attributable to s51 have been adjusted to take into account the more likely commercial profitability of these activities.

Where a department conducts both permitted and non-permitted activities and individual costs could not be directly associated with either, an appropriate allocation percentage was agreed and signed off by the relevant Director.

The tables below contain the detailed numerical information to support this process and split the net funding requirement for 2010/11 and 2011/12.

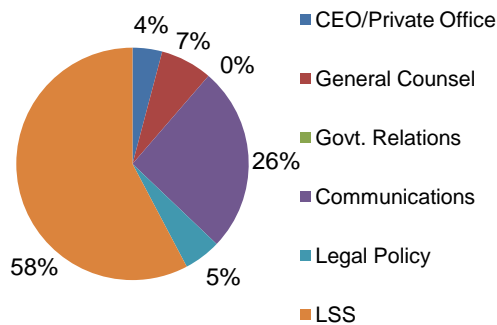
- Non permitted activities (proportion of the Law Society) – Table 3
- Regulatory activities (SRA only) – Table 4
- Permitted activities that are non-regulatory (proportion of the Law Society) – Table 5
- Income and expenditure on group shared services and central costs – Table 6

Table 3: Total non-Section 51 permitted income & expenditure

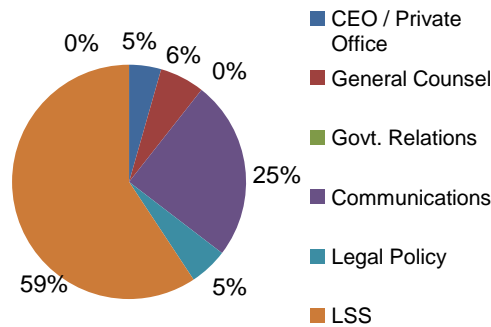
This table shows income in relation to non-permitted activities and the associated expenditure. The excess of income over expenditure is expected to be £2.6m in 2012 compared with £0.6m in 2011. This surplus contributes to the cost of the Law Society's permitted activities as shown in table 5.

Budget item	2011/12 Budget year	2010/11 Current year (budget)	Variance 2011/12 budget v 2010/11 budget	2011 Quarter 1 forecast	Commentary 2011/12 v 2010/11
Total non-Section 51 income					
TLS Non-S51 income	£12.3m	£11.9m	+ £0.4m + 3%	£10.7m	
Contribution of non-S51 income to permitted activities -	(£2.6m)	(£0.6m)	+ £2.0m + 333%	-	This surplus reduces the PC fee requirement relating to the Law Society's permitted activities
Total	£9.7m	£11.3m	- £1.6m - 14%	£10.7m	
Total non-Section 51 expenditure					
CEO/Private Office	(£0.4m)	(£0.5m)	- £0.1m - 20%	(£0.5m)	
General Counsel	(£0.7m)	(£0.7m)	+ £0.0m + 0%	(£0.7m)	
Government Relations	(£0.0m)	(£0.0m)	+ £0.0m + 0%	(£0.0m)	
Communications	(£2.5m)	(£2.8m)	- £0.3m - 11%	(£3.1m)	
Legal Policy	(£0.5m)	(£0.6m)	- £0.1m - 17%	(£0.6m)	
Law Society Services (LSS)	(£5.6m)	(£6.7m)	- £1.1m - 16%	(£6.6m)	Reduction in shared service allocation of £0.7m
Total	(£9.7m)	(£11.3m)	- £1.6m - 14%	(£11.5m)	

Total non-PC fee expenditure on non-permitted purposes by directorate- 2011/12



Total non-PC fee expenditure on non-permitted purposes by directorate- 2010/11



- **CEO/President's Office** - This includes the Chief Executive and the Office Holders. Provides strategic support to the leadership of the Law Society.
- **General Counsel** - Comprises Constitutional Affairs and Legal Services Department. Constitutional Affairs supports the Council including the elections. Legal Services is the in-house solicitors department which carries out or supervises the Society's legal affairs.
- **Government Relations** - Responsible for the Law Society's role as approved regulator under the Legal Services Act. Main activities include liaison with the Legal Services Board and responses to its consultations and representing the Society's interests in the implementation of the Legal Services Act.
- **Communications** - Includes Media, Branding, Public Affairs and Corporate Social Responsibility (CSR) (i.e. Equality & Diversity). CSR is around promoting best practice around the profession and includes raising funds for the Law Society's Charity.
- **Legal Policy** - To develop policy to support the profession and ensure that the Society is recognised as one of the significant players in the legal system. 5 teams covering Law Reform, Legal Aid, Professional Representation and Policy, Regulatory Affairs and Research.
- **Law Society Services** - Includes Commercial Services, Membership Services, Events and also International and UK Operations. Commercial activity covers Magazines, Book Publishing, Venue Hire, Catering and Affinity Schemes. Membership services include Sections and Accreditation Schemes as well as the Practice Advice Service and the Library

Section 3: Regulatory functions

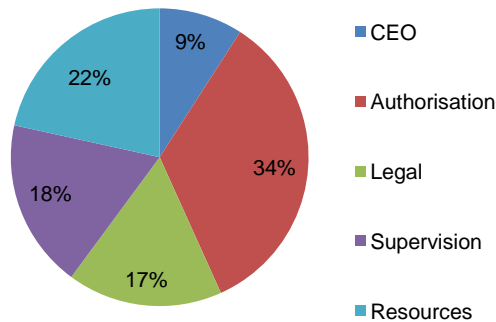
The budget setting process for the SRA is set out in Section 1.

Table 4: Total income & expenditure allocated to Regulatory functions (Solicitors Regulation Authority)

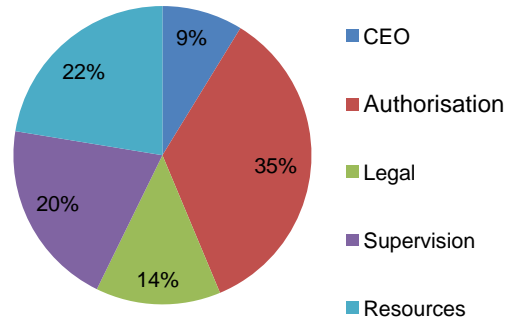
This table shows the expenditure of the Solicitor's Regulation Authority, split by directorate, and the sources of income that fund that expenditure.

Budget item	2011/12 Budget year	2010/11 Current year (budget)	Variance 2011/12 budget v 2010/11 budget	2011 Quarter 1 forecast	Commentary 2011/12 v 2010/11
Total income allocated to the permitted purposes for regulatory functions					
Total PC fee income	£53.4m	£70.9m	- £17.5m - 25%	£69.8m	Reduced funding requirement
Recoveries	£8.1m	£18.3m	- £10.2m - 56%	£17m	A change in policy regarding recharges from the Compensation Fund will result in lower recoveries
Other Income	£6.7m	£6.7m	+ £0.0 + 0%	£6.7m	
Total	£68.2m	£95.9m	- £27.7m - 29%	(£93.6m)	
Total expenditure on permitted purposes that are regulatory functions by directorate					
Chief Executive's Office (CEO)	(£6.2m)	(£8.4m)	- £2.2m - 26%	(£8.1m)	£2.1m reduction in allocated costs
Authorisation	(£23.3m)	(£33.5m)	- £10.2m - 30%	(£35.0m)	£9.2m reduction in allocated costs plus £1m benefits realisation savings on projects
Legal	(£11.5m)	(£13.0m)	- £1.5m - 12%	(£12.2m)	£1.7m reduction in allocated costs plus increase in staffing costs for legal expertise
Supervision	(£12.5m)	(£19.5m)	- £7.0m - 36%	(£18.3m)	£3.7m reduction in allocated costs plus £3m reduction in costs for implementing OFR/ABS
Resources	(£14.7m)	(£21.5m)	- £6.8m - 32%	(£19.9m)	£4.5m reduction in allocated costs plus £2.3m benefits realisation savings from projects
Total SRA	(£68.2m)	(£95.9m)	- £27.7m - 29%	(£93.5m)	

Total PC fee expenditure on Regulatory Functions by directorate - 2011/12



Total PC fee expenditure on Regulatory Functions by directorate - 2010/11



Solicitors Regulation Authority

- **CEO** – includes costs of SRA CEO, communications, strategy, assurance, research, inclusion, complaints handling, consumer engagement and board
- **Authorisation** – includes costs of authorisation, operations, intelligence & investigation, contact centre and administration centre
- **Legal** – includes the costs of discipline and legal team, disciplinary legal fees and adjudication
- **Supervision** – includes the costs of firm based & thematic risk supervision, risk centre, legal education, ethics policy and guidance
- **Resources** – includes the costs of business planning & performance, risk, audit, interventions, claims management, archiving, records management, information compliance and statutory trust work.

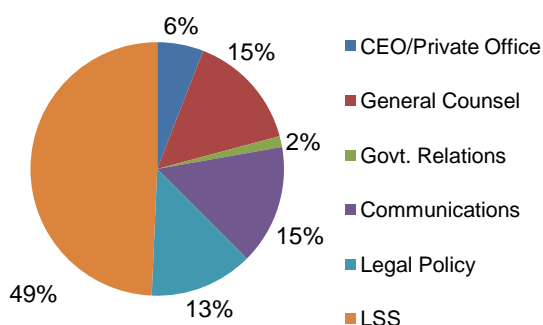
Table 5: Total PC fee income & expenditure allocated to Non-regulatory functions (The Law Society)

This table shows the expenditure of the Law Society on permitted activities, split by directorate, and the sources of income that fund this expenditure. This income includes a surplus of £2.6m from non-permitted activities in 2011/12 (see table 3).

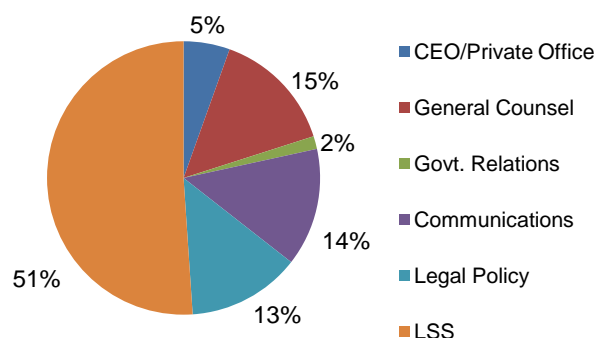
Budget item	2011/12 Budget year	2010/11 Current year (budget)	Variance 2011/12 budget v 2010/11 budget	2011 Quarter 1 forecast	Commentary 2011/12 v 2010/11
Total income allocated to the permitted purposes for non-regulatory functions					
S51 Income	£4.0m	£2.9m	+£1.1m +38%	£3.2m	
Non-S51 Income (from table 3)	£2.6m	£0.6m	+ £2.0m + 333%	-	This surplus reduces the PC fee requirement relating to the Law Society's permitted activities
Total PCF income	£21.9m	£29.1m	- £7.2m - 25%	£29.3m	Reduced funding requirement
Recoveries	£0.3m	£0.3m	- £0.0m - 0%	£0.2m	
Total	£28.8 m	£32.9m	- £4.1m - 12%	£32.7m	
Total expenditure on permitted purposes that are non-regulatory functions by directorate					
CEO/Private Office	(£1.7m)	(£1.8m)	- £0.1m - 5%	(£1.8m)	
General Counsel	(£4.3m)	(£4.8m)	- £0.5m - 10%	(£4.8m)	
Government Relations	(£0.4m)	(£0.5m)	- £0.1m - 20%	(£0.5m)	
Communications	(£4.4m)	(£4.6m)	- £0.2m - 4%	(£4.6m)	
Legal Policy	(£3.8m)	(£4.4m)	- £0.6m - 14%	(£4.5m)	
Law Society Services (LSS)	(£14.2m)	(£16.8m)	- £2.6m - 15%	(£16.5m)	Reduction in shared service allocation of £2.4m
Total	(£28.8m)	(£32.9m)	- £4.1m - 12%	(£32.7m)	

Detail of the contents of each directorate can be found on page 7.

Total PC fee expenditure on Non-regulatory functions by directorate - 2011/12



Total PC fee expenditure on Non-regulatory functions by directorate - 2010/11



The Law Society's work as a professional body can be divided into two categories; permitted activities and non-permitted activities as defined under section 51 of the Legal Services Act. As described on page 7, each department has assessed their activities against the permitted activities criteria. Where a department conducts both permitted and non-permitted activities the appropriate percentage allocation is calculated. This figure depends on a number of factors, including the proportion of staff time spent on permitted activity and cost of marketing specific projects. The Shared Services cost allocation mirrors each departments overall allocation to permitted and non-permitted activities.

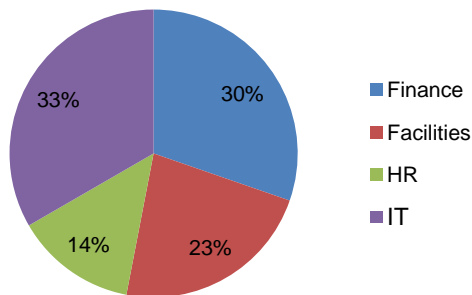
Table 6: Total PC fee income & expenditure on Group Shared Services and Central costs

This table shows the expenditure relating to shared services and central costs, split by directorate. These costs are allocated to the SRA and the Law Society and are included in the total expenditure in tables 3, 4 and 5. Shared service costs are allocated to directorates based on a number of drivers, mainly headcount. Once allocated to a directorate, the amount relating to non-permitted activities is calculated based on the proportion of other expenditure in that directorate related to non-permitted activities.

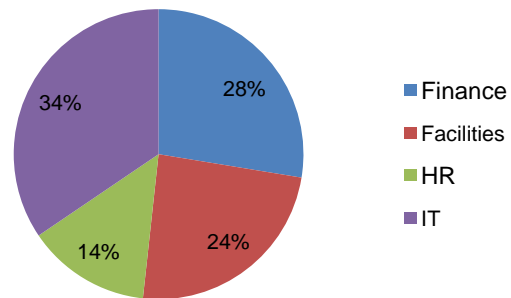
Budget item	2011/12 Budget year	2010/11 Current year (budget)	Variance 2011/12 budget v 2010/11 budget	2011 Quarter 1 forecast	Commentary 2011/12 v 2010/11
Total income allocated to shared services					
Total PC fee income	£28.9m	£59.7m	- £30.8m - 52%	£58.2m	
Contribution from non-S51 income	£2.4m	£3.7m	- £1.3m - 35%	£3.6m	This amount is included in the total expenditure on non-permitted activities in table 3.
Other income	£1.2m	£1.2m	+ £0.0m + 0%	£1.2m	
Total	£32.5m	£64.6m	- £32.1m - 50%	£63.0m	

Total expenditure on shared services by directorate					
Finance Dept (inc Internal Audit)	(£2.0m)	(£2.4m)	- £0.4m - 17%	(£2.2m)	
Facilities Dept	(£1.5m)	(£2.1m)	- £0.6m - 29%	(£2.5m)	
Human Resources and Development Dept (inc Pension staff costs) (HRD)	(£0.9m)	(£1.2m)	- £0.3m - 25%	(£1.5m)	
IT Dept	(£2.2m)	(£3.0m)	- £0.8m - 27%	(£2.4m)	
Shared Services Total	(£6.6m)	(£8.7m)	- £2.1m - 24%	(£8.6m)	Reduction of costs across all departments due to efficiencies
Finance Overheads	(£1.0m)	(£11.4m)	- £10.4m -91%	(£11.4m)	Buy-out of pension scheme from reserves reduces pension provision
Facilities Overheads	(£6.5m)	(£7.1m)	- £0.6m -8%	(£6.1m)	Benefits realisation from projects completed
Human Resources and Development Overheads (HRD)	(£6.2m)	(£9.9m)	- £3.7m -37%	(£9.9m)	Savings on redundancy due to restructures being in place plus reduced pension administration costs
IT Overheads	(£6.1m)	(£6.1m)	- £0.0m -0%	(£6.2m)	
Group Projects Investment Fund (GPIF)	(£5.4m)	(£18.0m)	- £12.6m -70%	(£18.0m)	Major projects mostly completed by 2012
Facilities Core Programme	(£0.7m)	(£1.0m)	- £0.3m -30%	(£1.0m)	
Contingency	£0.0m	(£2.4m)	- £2.4m - 100%	(£1.8m)	Unforeseen costs to be funded from reserves
Central Costs Total	(£25.9m)	(£55.9m)	- £30.0m - 54%	(£54.4m)	
Total excluding Depreciation	(£32.5m)	(£64.6m)	- £32.1m - 50%	(£63.0m)	

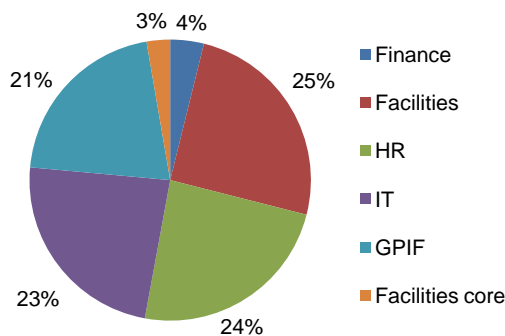
Total PC fee expenditure on shared services by directorate - 2011/12



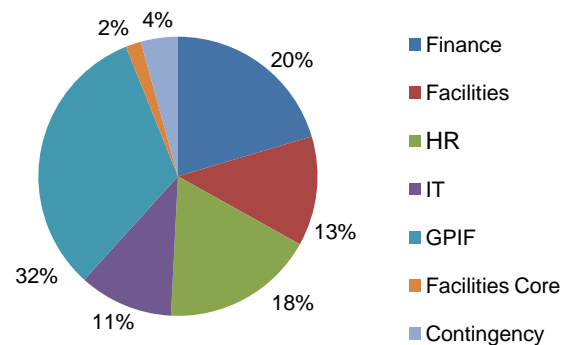
Total PC fee expenditure on shares services by directorate - 2010/11



Total PC fee expenditure on central costs by directorate- 2011/12



Total PC fee expenditure on central costs by directorate- 2010/11



- **Shared services** - includes the costs of the following departments; Finance, Internal Audit, HRD, Facilities and IT.
- **Central costs** – includes the costs of the following:
 - **Finance** – costs for the group including corporation tax and pension provisions
 - **Facilities** – costs relating to expenditure on facilities in London and the Midlands
 - **HRD** – costs for the group of recruiting, redundancy payments, training and pension management
 - **IT** – the group costs of running all IT systems includes Logica contract
 - **GPIF** – Group Project Investment Fund – this includes the group costs of all projects
 - **Facilities Core Programme** – Facilities small refurbishment projects
 - **Contingency** – money set aside for any unforeseen costs. 2012 has no contingency, reserves will be called upon in cases where extra funds are required (subject to approval)

Section 4: Clarity and transparency

On 30 June 2011 the contents of Sections 1-3 of this Application, adapted only to anticipate the final decisions of the Council and SRA Board, were published on both the Law Society and SRA web sites, along with a shorter "plain English" summary of the fees and contributions payable together with an overview of how the income will be spent. This was to give the profession the opportunity to make representation before the Council approved the overall budget on 13 July.

However, prior to that publication, and from an early point in the planning process, a number of other communications have been made to keep the profession and other stakeholders informed:

- In March letters were sent to a number of stakeholder groups and a note was published on the SRA website (www.sra.org.uk/fees) indicating that it was proposed that the overall fee structure was likely to remain the same as the previous year, that regulatory fees were likely to decrease but that the Compensation Fund contributions were likely to increase.
- In March a consultation on the ABS Fee Structure was published. This included a statement that the fee structure for recognised bodies was likely to remain broadly the same as the previous year.
- In April the SRA Board considered in public session a review of the experience of the previous year's fee structure, and the review was published on the SRA web site in May.
- In May a letter was sent to all firms, referring to the decision to maintain the same fee structure, asking firms to confirm the turnover figure and referring to the fact that the on-line fee calculator , updated with indicative fees for 2011/12 would shortly be available on the SRA web site.
- On 20 May the on-line calculator was made available with an indicative individual fee of £350, a revised turnover table and indicative Compensation Fund contributions of £60 (individual) and £772 (firm)

The combination of the information contained in this application, (including the plain English summary) published in June, and the on-line calculator, has given all those who have to pay the practising fees the following information:

- the level of the fees, and through the turnover table and on- line calculator the means to work out the firm fee
- information on how the level of the fee has been set
- an indication of how the income will be spent including a breakdown of the amount spent on regulatory functions, non regulatory functions and shared services

The same fee structure with some adaptation will also apply to Licensed Bodies. A consultation on the Fee Structure for ABS was published on 21 March, after initial discussions with the ABS reference group. On 1st June 2011, in public session, the SRA Board confirmed the structure for ABS, and this has since been reported to the ABS reference group. All information published since then has therefore also been available to inform prospective ABS of the individual and periodical fees payable.

Section 5: Regulatory and Diversity Impact Assessment

The significant changes to the fee structure made in 2010 were subject to considerable consultation with stakeholder groups and a published Equality Impact Assessment which indicated that, while there would be winners and losers in relation to firms in different size groups, overall the new structure would be beneficial to all in in house practice and that more small firms would see an overall reduction than an increase in the total fees payable. Our data indicates that women and BME groups are over-represented in in house practice and in small firms

The SRA Board last year committed itself to review the new fee structure. The review was carried out in early 2011 and considered by the Board in April and then published on the SRA website. The review document is attached at Appendix 1. In the light of the review the Board concluded that the fee structure met its objectives together with the Regulatory Objectives and the Better Regulation Principles as explained in detail in the Application for Approval of Alterations to Regulatory Arrangements submitted to the LSB, before the s51 Application, in 2010. In the light of that conclusion the SRA Board confirmed that the same structure should apply in 2011, and would achieve the same objectives.

The Board also considered a new Equality Impact Assessment in reaching its conclusions and that is attached at Appendix 2. This is less detailed than the one last year as the fee structure is being maintained. Although the budget setting process this year has resulted in a reduction in the overall amount to be collected from the profession, the impact on each firm will depend on the number of regulated individuals employed in the firms and the firm's turnover. If both these variants remain the same then a firm would see an overall reduction in to total fees and contributions payable.

The EIA includes the impact on potential ABS firms.

Section 6: Consultation with non-commercial bodies and the Consumer Panel

The significant changes to the fee structure made in 2010 were subject to considerable consultation. The changes were of considerable benefit to those bodies, such as non-commercial bodies, employing in house solicitors as the individual practising certificate fee reduced considerably. More of the fee burden was borne by private practice firms. The decision to maintain broadly the same structure this year was not subject to specific consultation, although information that there would be little change was made available. Given early indications that the individual fee would be likely to decrease to an extent that would at least offset the increase in the individual Compensation Fund contribution, it was concluded that the impact on the non commercial sector of fee setting in 2011 would be likely to be neutral or beneficial.

After decisions by the SRA Board in early June a letter was sent to the Law Centres Federation, Citizens Advice and the Advice Services Alliance advising them of the proposals for this year with indicative figures and asking if they had any views on the impact of this year's fees on the non commercial sector.

In future some non-commercial bodies may, as special bodies, be required to become Licensed Bodies. Some are therefore represented on the ABS reference group and did respond to the consultation on the Fee Structure for ABS. The key concern raised in those responses was whether it was appropriate to use turnover, as currently defined, as the basis for charging a firm fee to special bodies. The regulatory scheme for special bodies is still in the course of development and it was useful to have this input at an early stage as it can be taken into account during the further developmental work. These responses do not relate to the fee structure for this year.

Section 7: Practising fees determinations [2011]

As stated at the outset of this application, under the arrangements agreed between the Law Society and SRA, it is for the Law Society Council, having consulted the SRA Board, to determine the total amount to be raised from practising fees. It is for the SRA to determine how that amount should be apportioned between the different categories of fee payer.

On 13 July 2011 the SRA Board made the following fee determinations, subject to the confirmation of the Law Society Council of the total funding requirement (confirmed on 14 July 2011), and subject to the approval of the LSB:

Practising Certificate Fee Determination [2011] - Appendix 3

Determination of Sole Practitioner fees [2011] - Appendix 4

Recognised Body Fee Determination [2011] - Appendix 5

Licensed Body Fee Determination [2011] - Appendix 6

The above determinations are subject to LSB approval under section 51 of the Legal Services Act 2007 and are now submitted for such approval. The approval by the LSB of the Licensed Body Fee Determination will also be subject to the designation of the Law Society and SRA as a Licensing Authority under the Legal Services Act 2007.

A brief summary of the fee determinations is set out below:

Appendix 3: Practising Certificate Fee Determination [2011]

This:

- sets the practising fee and equivalent fees for registered European lawyers and registered foreign lawyers.
- provides a 50% discount for those who are or have been on maternity leave.
- prescribes the firms fee for recognised sole practitioners (based on turnover).
- prescribes the fee for brand new sole practitioners applying for recognition at the same time a renewal of a practising certificate.
- preserves a lower fee for RFLs who are based abroad and deals with other special cases.
- sets the fee at £250 for the SRA to determine relevant turnover following a Notice of Succession where the relevant firms cannot agree.
- includes an amendment to clarify the policy intent that the initial fee of £200 payable in certain circumstances is only available where the relevant predecessor body has already paid a regulatory fee for the practising year.

Appendix 4: Determination of Sole Practitioner Fees [2011]

A separate resolution is required to set the application fee for recognition of a sole practitioner who applies during the course of a practising year. This is needed because of the way the Solicitors Act is drafted in providing for the recognition of sole practitioners.

Appendix 5: Recognised Body Fee Determination [2011]

This:

- prescribes the firm fee for recognised bodies (based on turnover) with different provisions applying to brand new firms, continuing firms and firms who have been affected by an acquisition, merger or split in the last 12 months.
- deals with special cases such as overseas offices.
- sets at the fee at £250 for the SRA to determine relevant turnover following a Notice of Succession where the relevant firms cannot agree.
- includes an amendment to clarify the policy that the initial fee of £200 payable in certain circumstances is only available where the relevant predecessor body has already paid a regulatory fee for the practising year.

Appendix 6: Licensed Body Fee Determination [2011]

This:

- sets the application fee payable by licensable bodies. (Note that this is not subject to approval under s51 LSA 2007)
- sets the initial periodical fee payable by a licensed body on authorisation, based on estimated turnover for the first 12 months and calculated in accordance with the banded turnover table.
- includes an adapted definition of turnover to give the SRA a discretion to amend the figure where it appears that the turnover figure does not fully reflect the value of the legal services provided.
- adapts the definition of turnover to relate it to turnover from regulated (legal) activities.

Appendix 1: Review of Fairer Fees 2010

Introduction

1. In 2010 the SRA introduced a new fee structure. Previously the cost of regulation had been almost fully funded through individual practising fees paid by solicitors, Registered Foreign Lawyers and Registered European Lawyers. The individual fee in 2009 was £1,180. Under the new structure introduced in 2010 only 40% of the funding requirement was borne through individual practising fees (£428) and 60% through a new annual fee charged to private practice firms and apportioned on the basis of a banded turnover table. Compensation Fund contributions were also charged to both firms and individuals, instead of just to individuals.

Objectives

2. Broadly the objectives of the new fee structure were as follows:-
to make the fee structure more logical and spread the cost more fairly over various sectors in the profession (i.e. between in-house and private practice)
 - to prepare a fee structure which was more compatible with an increasing emphasis on firm based regulation and with Alternative Business Structures (ABS) when they are permitted from 2011
 - to meet the strategic objective of the SRA to ensure that policies and regulations are fair and they are not directly or unjustifiably indirectly discriminatory, and
 - to comply with our statutory regulatory objectives, in particular improving access to justice, promoting competition and encouraging an independent, strong, varied and effective legal profession.
3. The SRA consulted on what the guiding principles for the new fee policy should be and the principles adopted, after consultation, were that the policy should:
 1. be fair to fee payers
 2. be efficient and economical to administer
 3. ensure a predictable income to meet the cost of regulation
 4. be stable – charges should not vary considerably year on year
 5. be as simple as possible – to enable the regulated profession to predict their likely fees
 6. be based on data that can be verified
 7. ensure that, where possible, the cost of processes that are not of general application should be borne by those making such applications, and, as far as possible, on a cost recovery basis
 8. take some account of ability to pay, in particular in relation to small and new businesses – fees should not be a deterrent to new entrants.

Purpose of review

4. Given the significance of the change, the SRA Board committed itself to an internal review to assess the extent to which the new fee structure achieved the objectives in line with the guiding principles.
5. The new fee structure contained a number of different components and the SRA Board also committed itself to review certain specific components in the following year.

6. In addition, each year, the SRA and the Law Society need to seek approval from the Legal Services Board for annual practising fee and other fee related changes to regulatory arrangements. Our application to the LSB for the approval of fees for 2011/12 will include the details of this internal review.

Summary of process and challenges relating to ‘turnover’

7. The process to allow fees to be based on turnover proved to be the most challenging aspect of the change to the new structure and is therefore covered in some detail in this review.
8. The current regulation of both individuals and firms (Recognised Bodies) includes a requirement to renew a practising certificate and recognition each year. The practising year runs from 1st November to 31st October in any year.
9. The renewal exercise enables the SRA to confirm or obtain new data about individuals and firms and to collect annual fees.
10. Firms were asked to provide a „gross fees“ figure in the 2009 renewal exercise. At that stage no decision had been made to use those figures as the basis for apportioning the 2010 firm based fee. The use of that historical turnover figure was the subject of later consultation and was adopted as part of the fee policy, rather than seeking a more recent turnover figure closer to the renewal time. The advantage of a historic turnover figure was that it would allow the SRA to give earlier clarity to firms about the amount that they would have to pay.
11. When the decision to use the turnover figures submitted in 2009 for the fee calculation was taken, a letter was sent to all firms, in March 2010, explaining that the 2009 turnover figure would be used as a basis for determining the fee for their firm’s recognition renewal in 2010. The letter included an explanation of the SRA’s definition of turnover together with the turnover figure which the SRA currently held for the firm. Firms who believed the information that the SRA held was incorrect were asked to e-mail to a dedicated mailbox providing an up-dated figure and an explanation as to why this figure had been changed. 2,500 responses were received (together with numerous phone calls). Approximately 70% of the responses provided updates to the figures held while the remaining 30% were seeking further clarification.
12. An analysis of the queries raised by the profession indicated that there was lack of clarity and some confusion as to what the relevant accounting period should be for the calculation of the turnover figure and on issues such as how bad debts and work in progress should be treated.
13. These queries and concerns resulted in a development of an extensive number of Frequently Asked Questions on the website, and further communications with the profession. It became clear that in order to achieve a consistent approach, the firms had to be given more clarity on the definition of turnover and the ability to revise estimated figures in the light of finalised accounts.
14. The fee calculation process involved capturing the turnover information from the 2009 renewal exercise and preparing a banded table based on that turnover information and the estimated budget. In May an on-line calculator was provided to enable firms to calculate an indication of the total amount of fees and contributions that might be payable by the firm in 2010.

15. A further letter was sent to all firms in May 2010 with more detailed information, a reference to the on-line calculator and the FAQs on the website and providing indicative total fees figure for each firm. The letter gave firms a date by which they had to provide a final figure.
16. There were approximately 3,300 responses to this letter, 58% providing updated figures and the remaining responses covering issues such as
 - complex firm structures
 - treatment of income in relation to turnover
 - the ongoing debate on the use of historical data.
17. These queries resulted in further FAQs and also provided useful information which was then used to make decisions on the calculation / apportionment of fees following a merger or split.
18. The key issue was that firms have different accounting periods and then may not have finalised accounts for some time afterwards. Some firms did not have completed accounts for the previous year's accounting period until quite late in 2010 and therefore the SRA had to accept variations of figures for turnover until late 2010. These late revisions meant that the final turnover figure for the profession was higher than the figures used for setting the bandings in June. This resulted in a surplus. Had the final figures reduced the total turnover then there would have been a shortage. It is difficult to see how the process can be changed to reduce this risk.
19. During this time a letter was sent to new firms, i.e. firms which had set up since the 2009 renewal exercise. The SRA had no recorded turnover figure for such firms and these firms were asked to provide an estimated turnover for the first twelve months of trading.
20. The 2010 renewal forms were sent to firms in September 2010 and contained the fee that would be payable by the firm on submission of their application for firm renewal and for the renewal of the practising certificates and registrations of the regulated individuals working in the firm, together with the relevant Compensation Fund contributions for each. The forms asked for the turnover for that year and referred to the full guidance on how turnover should be calculated. At this stage there were few complaints and the renewal exercise was completed within the standard service levels.

Financial Impact assessment

21. The Appendix to this report contains Tables A to D showing the financial impact assessment. Table A shows the overall target amounts to be raised for both regulation and the Compensation Fund from firms and individuals, the forecast amount and the actual amount, also showing the variance. Table B shows the Compensation Fund contributions and regulatory fees provided by firms in the different partner bandings, and Table C shows the breakdown of the amounts provided by individuals.
22. These tables show that overall actual funding exceeded the requirement by £5.1 million. This was firstly because the number of full practising certificates actually issued was about 5,700 over the forecast, and because of the fact that the PC fee was set at £428, giving slightly more than required, to make it easily divisible by 4 to enable the quarterly reduced fees to be a round figure. The individual requirement was exceeded by £2.4m.

23. It was secondly because of an increase over the forecast figure in the total turnover, due to previously unaccounted for turnover figures provided by new firms, and revisions in turnover (£2.6m). A decision had been taken to over collect against the original turnover figures by 2% in case the revisions to the turnover figures led to an overall decrease, causing a shortfall. In fact the overall turnover finally recorded showed an increase of £0.5bn. There were 237 fewer firms than forecast, but the increase in turnover suggest that the overall number may have been down because of merger activity.
24. The increase in the number of Practising Certificates resulted in an increase in the amounts provided by both the individual regulatory fee and Compensation Fund contribution. The assumptions used to forecast the number of Practising Certificates have been revisited this year in the light of this experience.
25. When the new system of apportioning costs among firms through turnover bandings was proposed, a general principle was adopted that the turnover table should be set in a way to ensure that firms grouped in different size bandings should bear a similar proportion of the overall funding burden as before. The forecast table also indicated the percentage of firms in each banding whose contribution should decrease, increase less than 15%, increase between 15% and 50% and increase more than 50%. Table D shows the forecast changes in funding burden between the different partner bandings and shows the actual change. This shows that nearly all of the actual fees collected came within a 10% variance of the original increase/decrease forecast, most with only a 5% variance. The exception related to sole practitioners. The forecast had been that only 7.3% of sole practitioners would see an increase of over 50%, and the actual shows that 20% saw such an increase. However we believe this is due to the fact that the forecast model did not take into account the fact that any new sole practitioner seeking recognition since the previous 31st October would be recorded as having only paid a fee of £90 for the previous year (the firm record would not show the practising certificate fee paid the previous year). At renewal in 2010 they would have paid both the individual fee and a fee based on turnover, inevitably considerably more than the £90 recorded. We believe there were about 460 firms in this category which, together with some increases in turnover, explains the variance.

Complaints

26. As will be clear from the section on the challenge of defining 'turnover', the letters sent about turnover in March and May gave rise to a large number of responses including many queries and questions. These responses were not treated as complaints although many did contain elements of dissatisfaction. All these responses were extremely helpful and arguably necessary to enable the SRA to review and revise the definition of turnover and considerably improve the clarity of information and communication we were able to provide for the profession.
27. In addition 10 specific complaints were received as a result of the letter sent in March 2010.
28. Five complaints were logged as a result of the letter issued in May. However, most of these letters were asking for the justification of the right to charge in a revised manner. Such firms were referred to the three consultation papers and responses and FAQs on the website, and did not raise issues that had not been covered in the consultations.
29. Given that many firms were seeing a significant (over 100%) increase in fees over the previous year and some were seeing an increase of over ten times the amount paid previously this level of complaint was lower than might have been anticipated.

30. One complaint was escalated for legal advice as the solicitor had threatened to seek a Judicial Review. This complaint was eventually resolved without such action.

Discounts

31. The initial consultation exercise included a proposal to reduce the number of discounts available to those paying the individual fee. These discounts had been introduced at the time when nearly all the cost of regulation was provided through the Practising Certificate fee, and such discounts were therefore more appropriate. The only discount maintained was a reduction where an individual was or had been on maternity leave. 3,202 individual applications were entitled to the maternity discount.
32. There were no complaints during the renewal process received about the removal of the other discounts although there was one request in relation to whether or not discount was available for a carer. However, this was not surprising as the PC fee was approximately half of what it had been the previous year and so those who had been in receipt of a discount before were paying approximately the same amount.
33. The reason for the reduction in the number of discounts was to provide a simpler system. In previous years complexity around the discounts resulted in a number of queries and difficulties during the renewal exercise and these were significantly reduced in 2010.
34. The SRA took Counsel's advice on whether the removal of discounts might amount to direct or indirect discrimination. At the time the advice was taken the Equality Bill was still going through Parliament and the advice was inconclusive. The situation has been reviewed but we still have no data on which to base a review beyond the low number of complaints.
35. It therefore remains difficult to review the impact or need for discounts given that we do not have clear information about who bears the cost of individual practising fees or the number who, for example, work part time whether through choice or because of disability or the impact for those who are on long term sick leave.
36. One concern about the previous discount and indeed the current definition of those entitled to the maternity leave discount is that it does not relate to hardship, as there is no need to establish a reduction in income. That is presumed from the fact that some maternity leave has been taken. Where the forms refer to 'statutory maternity leave', there is no set minimum amount of leave indicated, therefore a person might be entitled even if a short amount of leave has been taken, although historically it may have been assumed that statutory maternity leave meant 28 weeks.
37. Paternity leave is being introduced from April 2011 and again we have no figures as to the extent to which members of the profession may take up the entitlement to paternity leave and therefore the impact offering such a discount might have.
38. There is likely to be some continuing concern that limiting a discount to maternity leave may be unfair to others impacted by some hardship. It is arguably more consistent to allow no discounts at all. An alternative is to target the discount at hardship caused by having to pay the full fee when earning a low income. The low income may be the result of maternity / paternity leave, part time work, long term sick leave or any other reason. This appears to be a better justification for a discount. However changing the discount will have an impact. There were 3,202 applications which benefited from the current discount. Change requires a full review and consultation.

Fee moderation process

39. There was some concern that the new firm based fee may cause hardship particularly to firms who are mainly funded by the Legal Services Commission. The key concern was that some firms, particularly with a high turnover but low profitability, may see a significant increase in the fees yet have little time to budget for making such a payment. There was particular concern that the use of a historic turnover figure may add to the difficulty where a firm's current turnover is much lower than the one in the year on which the fee is based. The third consultation consulted on the need for a fee moderation process in recognition of hardship. The SRA Board decided to implement such a process but, in order to minimise the cost of handling such applications, decided that the fee moderation process should only be available to firms which met certain set criteria. The amount by which the firm fee should be reduced was also subject to a fixed formula.
40. An on-line eligibility checker was published on the SRA website in July 2010 and remained available until 1st September 2010. The closing date for submission of applications was the 31 October 2010. The on-line eligibility checker enabled firms to enter details about the firm and then check whether they met the criteria. The process was only available to small firms, i.e. those whose turnover from the most recent closed accounts after October 2009 was below £500,000 and that sum had to be at least a 30% reduction on the figures in the previous year. In addition the total fee bill had to be at least 50% higher than the total fee bill paid by the firm in 2009 for renewal.
41. The fee moderation tool was searched on 191 occasions and 4 applications, all of which met the criteria, were approved. (Nearly 7,000 firms have a turnover of less than £500,000) There was a charge of £250 for each application.
42. Although it is clear that a number of firms checked to see whether they would be eligible for the fee moderation there were very few complaints from those firms who checked and were not eligible stating that the criteria were too limiting or that it caused them exceptional hardship. The fee moderation process was intended to be a one year only process to help firms adjust to the new regime. Indications from the Financial Impact Assessment indicate that broadly most firms which were subject to an increase were able to pay the increase. Therefore it does not seem likely that it is necessary to consider any fee moderation process for the next year.

Notice of Succession - firms subject to a split and / or merger

43. The Notice of Succession was developed for firms that had succeeded to the whole or part of the practice of one or more firms and / or firms that had split or ceded part of the practice to another firm before renewal. The Notice was to ensure that the SRA would have a turnover figure on which to base the renewal fee. The process for 2010 was implemented on 1st August 2010 and since then the SRA received 56 Notices of Succession. The majority of firms did reach agreement on apportionment although 13 (23%) indicated that an agreement had not initially been reached. The main difficulty with the Notice of Succession related to the fact that different firms would have different accounting periods and there was often confusion as to which accounting period was the relevant period for the calculation of the fees for 2010. The issues varied case by case. The main challenge in processing the notices was understanding what actually had occurred leading to long discussions with the firms affected. The majority of notifications involved sole practitioners and small firms.

44. During this year a fee was not charged when the SRA was required to provide an apportionment in the absence of an agreement. The experience gained in dealing with the splits and mergers so far will help in providing clearer guidance and FAQs to assist firms in the future, and hopefully make the process less resource intensive. It is, however, difficult to see as yet how the process could be improved or simplified.

Brand new firms

45. Brand new firms pay a fixed fee under the new structure. It was always clearly the policy that a firm is only a "brand new firm" if it is a new business start up that has not succeeded to the whole or any part of any other ongoing business, or for example is a new recognised body only due to a change in legal status (eg on incorporation of a partnership). The various fee orders therefore contained careful definitions to distinguish the two situations and to ensure that an apparently new firm which is in fact a "continuing" business only pay an application handling fee on set up and at next renewal pay on the basis of prior relevant turnover. This was achieved except in relation to a continuing firm applying for recognition as a "new" firm on 1st November, one among the many varied situations that had not been anticipated. This inadvertent oversight should be remedied this year.

Conclusion

46. The main objective of any regulatory fee structure is to collect the resources required to fund regulation as predictably as possible. The 2010 fee structure met that objective. The principles adopted to underpin the fee policy last year also reflected the relevant statutory regulatory objectives and principles of good regulation. The following paragraphs provide a high level assessment of the outcomes against the principles.

Was the new fee policy fair to fee payers?

47. While it is clear that the current system is fairer to in-house solicitors it is difficult for a review of this kind to reach an objective conclusion on fairness. The information in the Financial Impact Assessment does not suggest any particular unfairness. The system is also fairer in that whereas previously two firms of same size (measured by turnover) giving rise to similar regulatory risks may have paid substantially different amounts in regulatory fees depending only on the number of practising individuals within the firm. The new system is fairer across such firms. The data we have does not indicate a higher number of firm failures this year due to an increase in fees. There have been remarkably few complaints by those firms which experienced a considerable increase in fees indicating that they were able to pay, and recognised the justification for such an increase.

Was it efficient and economical to administer?

48. A number of other changes were made to the renewal process this year, not relating to fees, and so it is difficult to measure whether there was a reduction in queries or complaints about the fee setting aspect in isolation.
49. The first year of this new system certainly required more communication with individual firms in advance of renewal, but the "lessons learnt" and improved communication and information did result in the actual renewal process running smoothly in relation to the fee calculation.

Did it ensure a predictable income to meet the cost of regulation?

50. The new system, in particular the way the turnover bandings worked, did ensure a predictable income. The banded turnover table included in the fee determination was based on not quite final figures for the total firms' turnover. Late revisions to turnover figures resulted in an additional 2.6 million pounds. This was simply due to the fact that the turnover table and bandings were set in time to allow the necessary decision making and to give time for the Legal Services Board to approve the fees. This variation would be reduced if a much earlier date was fixed for final turnover figures. However, that may not be seen as fair or consistent given firms' different accounting periods.

Is the structure stable so that charges should not vary considerably year on year?

51. As anticipated, in this first year of change there were winners and losers. While the overall cost of regulation went down for many firms, other firms had to face a significant increase. Some detail can be seen in Table D. The banding of turnover was intended to ensure that particular sizes of firms as a group would not suffer more than others but variation within the groups was inevitable. However, the main variables for future years will be an increase or decrease in the total funding requirements but otherwise will be dependent on the number of regulated individuals employed and the firm's turnover. Any significant increases are therefore likely to be linked to the firm's increased ability to pay. Firms are now able to budget in line with the new structure.

Is the structure as simple as possible enabling the regulated profession to predict their likely fees?

52. Although charging firms on the basis of both the number of regulated individuals in the firm and turnover appears to be complex, in fact the reduction of the amount of discounts available in relation to the Practising Certificate fee and the previously complicated Compensation Fund contributions which depended on a number of variable factors was more complex. It was fairly easy to provide an On-line Calculator to enable the profession to get an early indication of their total fee bill, and now firms are used to the calculation, they will be able to predict variations caused by their own activities.

Is the structure based on data that can be verified?

53. All aspects can be verified. The current system is based primarily on self-certification of the turnover figure. This year, as last year, any unusual turnover figures or anomalies are being followed up and checked. There are a number of other ways in which a firm's turnover can be checked, e.g. by asking to see what turnover figure was produced for the purposes of indemnity insurance and comparing that with the figure given to the SRA. To-date there is no enforcement action being taken against firms involving allegations of misrepresentation of turnover. However, the enforcement policy would permit serious disciplinary action to be taken in the event of a firm being found to have deliberately misrepresented its turnover.

Are the costs of processes that are not of general application borne by those making such applications, as far as possible, on cost recovery basis?

54. This is the case, wherever possible.

Does the structure take some account of the ability to pay, in particular in relation to small and new businesses - are fees a deterrent to new entrants?

55. The structure, based on turnover that has been developed takes into account the ability to pay as even for the smallest firm the firm fee is 1.10% of turnover - and this is the highest percentage. The new firm fee appears not to be a deterrent to new entrants. There was only one instance during the renewal process where a firm made it known that it would have difficulty paying. The firm closure notifications rose from 565 in 2008 to 1111 in 2009. In 2010 they rose less steeply to 1172 indicating that the underlying economic climate probably has more impact than fees.

Table A
Funding Requirements & Results

Funding Requirements	
Regulatory Fund	£121,700,000
Compensation Fund	£2,100,000

Regulatory Fund - Funding Results			
		a	c
	Target % Split	Tgt Amounts to Raise (£m)	10/11 Actuals (£m)
Firms:	60.00%	73	75.4
Individuals:	40.00%	48.7	50.2
Total:	100.00%	121.7	125.6

Compensation Fund - Funding Results			
	Target % Split	Tgt Amounts to Raise (£m)	10/11 Actuals (£m)
Firms:	50.00%	1.1	1.1
Individuals:	50.00%	1.1	1.2
Total:	100.00%	2.1	2.2

Total Fee Determination:	123.8	127.8
Variance (unprocessed items)		1
Total Cash Collected		128.9

Table B
Funding Requirements & Results - firm fees

Compensation Fund - firm element		2010/2011 Forecast				2010/2011 Actual			
Compensation Fund Fee	Firms affected	Firms exempt	Total firms	Amount raised	Firms affected	Firms exempt	Total firms	Amount raised	
£120	9,034	2,163	11,197	1084080	8773	2187	10960	£1,052,760	

Regulatory fee - firm element

Band	Min Turnover	Pay % of turnover	Minimum in Band	Feb 2010 total turnover	Firms Feb 2010	Amounts raised forecast Feb 2010	Feb 2011 total turnover	Firms Feb 2011	Amounts raised actual Feb 2011	Turnover variance	Firms variance	Amounts variance
A	£0	1.10%	£100	5,851,022	522	£116,561	4,374,413	395	£109,014	(1,476,609)	(127)	(7,547)
B	£20,000	0.65%	£320	225,555,502	2,851	£2,007,801	219,994,529	2,804	£1,882,523	(5,560,973)	(47)	(125,278)
C	£150,000	0.63%	£1,165	826,878,013	2,821	£5,829,951	838,824,809	2,920	£5,635,945	11,946,796	99	(194,007)
D	£500,000	0.60%	£3,370	985,486,453	1,391	£6,427,589	1,027,037,840	1,459	£6,325,817	41,551,387	68	(101,772)
E	£1,000,000	0.57%	£6,370	2,097,430,630	1,254	£12,795,535	2,162,034,157	1,305	£12,572,342	64,603,527	51	(223,193)
F	£3,000,000	0.39%	£17,770	2,454,735,341	474	£12,450,648	2,670,963,608	516	£12,941,185	216,228,267	42	490,537
G	£10,000,000	0.33%	£45,070	2,320,302,492	139	£9,334,728	2,366,746,709	139	£8,872,695	46,444,217	-	(462,034)
H	£30,000,000	0.30%	£111,070	2,568,916,579	51	£8,781,320	2,620,380,664	54	£8,746,566	51,464,085	3	(34,754)
I	£70,000,000	0.27%	£231,070	2,485,225,901	24	£7,719,790	2,646,613,642	27	£7,880,737	161,387,741	3	160,947
J	£150,000,000	0.10%	£447,070	4,509,866,769	15	£8,965,917	4,437,347,837	16	£8,995,350	(72,518,932)	1	29,433
Z	£0	0.00%	£100	-	1,655	£165,500	-	1,325	£1,446,769	-	(330)	1,281,269
Total				18,480,248,702	11,197	74,595,340	18,994,318,208	10,960	75,408,943	514,069,506	-237	813,601

Table C
Funding Requirements & Results - Individual fees

PC (Regulatory) Fee	Individual Compensation Fund Fee							
£428	£10							
	% of Full Amount Paid		10/11 Forecast			10/11 Actuals		
	PC Fee	Compensation Fund Fee	PC Holders	PC Fee	Compensation Fund Fee	PC Holders	PC Fee	Compensation Fund Fee
PC CPS	100%	0%	2,346	£1,004,088	£0			
PC FULL	100%	100%	99,508	£42,589,424	£995,080			
PC LOW INC	100%	100%	7,537	£3,225,836	£75,370			
PC FULL TOTAL	100%	100%	109,391	£46,819,348	£1,070,450	113,533	£48,592,124	£1,135,330
PC MAT	50%	100%	2,667	£570,738	£26,670	3,124	£742,571	£31,240
PC 1ST	75%	100%	4,469	£1,434,549	£44,690	1,300	£521,060	£13,000
Total			116,527	48,824,635	1,141,810	117,957	49,855,755	1,179,570
REL	100%	100%	258	£110,424	£2,580	225	£95,255	£2,250
RFL (UK based)	100%	100%	1,000	£428,000	£10,000	325	£126,308	£3,250
RFL (based outside UK)	20%	100%	330	£28,248	£3,300	967	£96,700	£9,670
Total			118,115	49,391,307	1,157,690	119,474	50,174,018	1,194,740

**Table D
Funding Requirements & Results**

Forecast Percentage Change in Fees between Forecast 10/11 and Actuals 09/10

	No. of firms	Decrease	Increase		
			Less than 15%	15% - 50%	Over 50%
Sole Practitioner	3,580	70.70%	10.90%	11.10%	7.30%
2-4 Partners	3,702	67.50%	13.20%	12.40%	6.80%
5-10 Partners	828	59.40%	20.20%	13.00%	7.40%
11-25 Partners	280	62.30%	16.70%	12.30%	8.70%
26-80 Partners	132	61.70%	17.30%	8.30%	12.80%
81 + Partners	50	56.00%	30.00%	12.00%	2.00%
	2,625				
Total Firms	11,197				

Percentage change in Fees between Actuals 10/11 vs Actuals 09/10

Partner Bands	Partner Banding	No. of firms	Decrease	Increase		
				Less than 15%	15% - 50%	Over 50%
Sole Practitioner	B	3,776	62.80%	7.80%	9.40%	20.00%
2-4 Partners	C	3,971	66.60%	12.00%	11.70%	9.70%
5-10 Partners	D	879	58.50%	18.20%	13.90%	9.40%
11-25 Partners	E	309	64.10%	15.90%	11.00%	9.10%
26-80 Partners	F	136	61.80%	15.40%	10.30%	12.50%
81+ Partners	G	53	50.90%	34.00%	9.40%	5.70%
No PC Holders & No Partners	O	1,836				
Total Firms		10,960				

Change on last year

- +/- 5%
- +/- 10%
- > +/- 10%
- 10/11 Actuals

Appendix 2: Equality Impact Assessment of the proposed fee structure for 2011/12

June 2011

Introduction

1. The statutory framework requires the regulatory fees and Compensation Fund contributions to be set each year by the SRA and The Law Society, subject to the approval of the Legal Services Board.
2. Significant changes were made to the fee structure for solicitors in 2010, moving from collecting virtually the whole of the cost of regulation from individuals to the cost being borne by both individuals and firms.
3. The changes were intended to provide a fairer basis for the distribution of the cost and a more rationale basis in the light of the move to firm based regulation and the introduction of Alternative Business Structures (ABS). It is proposed that broadly the same structure be applied to the allocation in 2011/12. A key change is that the renewal and fee collection process will be offered on line for the first time this year. It is also proposed that the same structure, with some modifications applies to the periodical fees payable by ABS.

Background

4. Each year the SRA and the Law Society determine the net funding requirement to cover the cost of regulation and the cost of "permitted purpose" services provided by the Law Society in the public interest, and similarly the requirement to fund the Compensation Fund (CF). Statute permits these requirements to be provided by those individuals and bodies who are subject to regulation, through annual fees and contributions.
5. The structure changed significantly in 2010, after considerable consultation, which led to the adoption of a number of principles to underpin the fee structure, and to the detailed decisions on the form of the structure. The intention was to produce a structure that would result in a fairer allocation of cost and be better suited to a future which included a greater emphasis on firm based regulation and which would permit ABS.
6. In summary, under the new structure, individuals bear 40% of the regulatory requirement through a fixed individual fee and private practice firms bear 60%, which is allocated to firms through the application of a tapered table to each firm's turnover figure. The Compensation Fund requirement is shared equally through a fixed individual contribution and a fixed firm contribution.
7. While the new structure was intended to apply for the future it has been subject to a review of the first year of operation, which has been published, and which indicates that the new fee structure has successfully met the guiding principles. In particular it is fairer to in house solicitors who now pay much less towards the cost. The fact that the firm regulatory fee is based on turnover takes into account ability to pay and many small firms' total fees decreased last year under the new system.
8. A key determinant of the amounts charged each year is the increase or decrease in the amount required to fund regulation and the Compensation Fund. However that is not a change in the fee structure. The SRA and Law Society are both seeking to reduce costs, and so the trend relating to the overall cost is down.

9. The other variables which impact on the total amount payable by firms are the number of regulated individuals employed by a firm and the firm's turnover, neither of which are matters over which the SRA has influence.
10. In the light of the review it is proposed that the fee structure remains virtually the same for 2011/12. The key operational change for this year is to concentrate on the efficiency of the process by providing it on line. Such changes in technology are better made in a stable environment. There has also been a consultation on applying the same structure, with some modification to take into account the different models, to ABS. The responses to the consultation were broadly in support of the proposals.

Aims and objectives

11. The main aims and objectives of the fee structure 2011/12 are:
 - To ensure a predictable income to meet the cost of regulation and of the Compensation Fund
 - To administer the collection efficiently and economically, using on line technology
 - To be fair to fee payers
 - To be as simple as possible...to enable the regulated profession to predict their likely fees
 - To adapt the fee structure for ABS

Stakeholders

12. Our stakeholders are:
 - All those within the regulated community (ie all regulated solicitors, RELs, RFLS, recognised sole practitioners and recognised bodies)
 - Potential ABS
 - Solicitor representative groups
 - The Legal Services Board
 - The Law Society
 - The SRA itself
 - Other approved regulators
 - Consumers of legal services

Stakeholder engagement

13. There was considerable stakeholder engagement last year. This year, given the proposal to maintain the current structure, with only minor adjustments, the view has been taken that formal consultation is not required, except in relation to the how the structure should be adapted to apply to ABS.
14. A consultation on the fee structure for ABS was published on 23rd March 2011, after a discussion about the proposals with two ABS reference groups. The consultation refers to the fact that the fee structure for regulated individuals and traditional firms will remain the same.
15. In addition a letter was sent on 18th March to a number of stakeholder groups, most of whom were closely involved in the development of the new structure last year, explaining the rationale for the "no change" proposal. A similar note has also been published on the SRA website.

16. The communication plan includes sending a letter to all firms during May, checking the firm has submitted the correct turnover figure, but also alerting firms to the information on the web site and to the fact that the on line calculator will be updated with indicative fees, during May. This will allow firms to work out an indicative total fee for themselves to assist their budget planning.

Initial conclusions about the equality and human rights impact

17. The Equality Impact Assessment (EIA) undertaken in 2010 to inform the introduction of the new fee structure concluded that the new structure had a marginally positive impact on BME and female individuals who are overrepresented in in house practice and in small firms. All in house practitioners benefited from the change and more small firms saw an overall decrease.
18. We have reviewed the data sets that supported the EIA last year to verify that the anticipated outcomes actually came about. Unfortunately it is not possible to create the same "snapshot" of data now as information about the number of regulated individuals etc in firms is in a constant state of change.. We have found that the slightly different tables which can be produced now would not therefore provide a close enough comparison with the tables produced in last years EIA to reproduce here. However the data that has been produced has supported the conclusion of the EIA last year that broadly more small firms saw an overall reduction in fees than an increase and as female and minority groups ore overrepresented in small firms the new structure had a positive impact on such groups
19. The following areas of concern were raised last year and have been reviewed as follows:

Discounts to the individual fee

20. Under the new structure the individual fee more than halved and in that context the number of previously available discounts were reduced to one, for maternity leave.
21. This caused some concern as it was felt it may have implications for those on long term sick leave or part time workers. Although there had not been a discount for these before, those affected may have been able to take advantage of the low income discount. We received no specific complaints at the time of renewal about the reduction in discounts, no doubt because of the reduction in the fee for all. There was one query about whether there was a discount for a carer.
22. This year paternity leave has been introduced and we have considered whether it would be appropriate to allow the maternity discount for those on paternity leave. However that led to a more detailed consideration of the circumstances in which the maternity discount applies and a realisation that it may not be fair for the maternity discount to apply to all, irrespective of financial need or hardship. Arguably a fairer rationale for discounts would be financial hardship whether due to maternity/paternity leave, part time working for whatever reason, long term sickness or simply very low paid work. A suggestion is to consider replacing the maternity discount with a single low income discount. This may mean that many who currently benefit from the maternity discount would not, but would mean that those whose income is reduced for a range of maternity and other reasons may benefit.
23. This requires careful thought, further analysis and consultation. Currently we have very little data on those who may be impacted, but could seek more data in a consultation process. Time does not allow for that this year and so will take place for next year. That will also allow us to take into account developments under the Equality Act.

Firm fee

24. In general the turnover model was supported as being fair. One concern was that it may have a negative impact on firms with a high turnover but low profit margin. Of particular concern was whether this might have an impact on access to justice in relation to firms doing a high proportion of legal aid work. We have no reliable data which can show either a positive or negative impact on such firms.

Compensation Fund firm contribution

25. The EIA last year noted that there was some concern about the impact of a flat rate Compensation Fund contribution and that it would be reviewed in the light of the expected increase in the CF requirement. Last year the CF requirement was unusually low in order to reduce the high level of reserves. The increase in the individual contribution is likely to be largely off set by a reduction in the individual regulatory fee, and is still at a level that is justifiable as a contribution by individual members of the profession to a fund that protects consumers against dishonesty and default by other members of the profession.
26. The increase in the firm fee is unlikely to have any significant impact on firms with a turnover of over £100,000. The Board has considered a discount for very small firms who might see a significant rise in overall fees (all else being equal) simply because of the increase in the fixed contribution. As BME and female solicitors are over represented in small firms such a discount would reduce the adverse impact of the rise. After careful consideration the Board concluded not to provide for such a discount. Last year was an unusually low contribution. In previous years the Compensation Fund contribution has been highly volatile and there has been little evidence of small firms being able to pay and firms this year will know in advance and be able to plan for the increase. The Board also considered that a reduction for very small firms was counter- intuitive to the risk presented by such firms. The Board considered that it would be better and fairer to review whether it would be better to apportion the firm based contribution according to turnover next year.

Application of the fee structure to ABS firms

27. An Equality Impact Assessment has been produced in relation to the SRA's framework for the regulation of ABS as a whole. That document refers to research produced by the Government and the LSB as well as some research by the SRA. It's broad conclusions are that ABS may have a number of positive impacts for some groups, particularly in widening the business models in which solicitors can be employed. It also included some concerns the small traditional firms may be negatively impacted by the competition provided by ABS . However the overall conclusion was that it is difficult or impossible at this stage to predict the impact and the monitoring and review would be required.
28. Seeking to assess the impact of the application of a particular fee structure at this stage is equally difficult as we cannot predict the number or comparative sizes of ABS firms. However if the current structure is fair and does not have a negative impact on traditional firms at this stage the same assumptions can be made about the way the structure will impact on ABS. The consultation asked respondents to indicate any positive or negative impact of the proposed fee structure and most respondents who answered the question either considered that it would have no impact or felt they had insufficient data on which to comment.

Conclusion

29. The new structure has been successful in reducing the individual fee and so making the system fairer for in house solicitors and in better reflecting ability to pay for firms. With the introduction of an on line payment structure, it is envisaged that the practice of fee collection and renewals will in future be processed more efficiently.

Monitoring and future review arrangements

- We will monitor the individual and firm fee contributions to check for potential impact and in particular see if we can seek data on the impact for firms with a high turnover but low profit margin.
- We will review the current arrangements for maternity discount in 2012 and consider whether there is a fairer way to address hardship caused by a number of factors.

Appendix 3: Practising Certificate Fee Determination [2011]

This determination is made by the Solicitors Regulation Authority Board under section 11 of the Solicitors Act 1974, paragraph 2(1)(b) of Schedule 14 to the Courts and Legal Services Act 1990 and regulation 1.6 of the SRA Practising Regulations 2009 with the approval of the Legal Services Board under section 51 of the Legal Services Act 2007

Practising certificate fee

1. The fee to be paid to the Law Society for each practising certificate issued will be £328 unless paragraphs 2, 3, or 4 of this order apply, or unless any of paragraphs 5 to 12 apply so as to impose an increased or additional fee.

Newly admitted solicitors and returning to practice

2. Subject to paragraph 3, any solicitor who applies for their first practising certificate during the practising certificate year commencing 1 November 2011 or any solicitor admitted prior to 1 November 2011 who has previously held a practising certificate and who returns to practice shall pay a fee in accordance with the following scale:
 - (a) Practising certificate issued 1 November 2011 to 31 December 2011 inclusive - £328
 - (b) Practising certificate issued 1 January 2012 to 31 March 2012 inclusive - £258;
 - (c) Practising certificate issued 1 April 2012 to 30 June 2012 inclusive - £188
 - (d) Practising certificate issued 1 July 2012 to 31 October 2012 inclusive - £118

Paragraphs 2(b) to 2(d) do not apply if during the solicitor's last period without a certificate they undertook any duties which required a practising certificate.

Former registered European lawyers and former registered foreign lawyers

3. A solicitor who has, at any time during the practising certificate year commencing 1 November 2011, registered or re-registered as a registered European lawyer or registered foreign lawyer and who applies for their first practising certificate shall be subject to a practising certificate fee of £0.

Maternity provisions

4. A solicitor who applies for a practising certificate during the practising certificate year 1 November 2011 to 31 October 2012 and who is on or has been on statutory maternity leave or a period of leave equivalent to statutory maternity leave within the previous practising year shall pay a fee in accordance with the following scale:
 - (a) Practising certificate issued 1 November 2011 to 31 December 2011 inclusive - £188

- (b) Practising certificate issued 1 January 2012 to 31 March 2012 inclusive - £153
- (c) Practising certificate issued 1 April 2012 to 30 June 2012 inclusive - £118
- (d) Practising certificate issued 1 July 2012 to 31 October 2012 inclusive - £83

This scale does not apply if the solicitor received a reduction for their practising certificate in the previous year for the same period of statutory maternity leave or period of leave equivalent to statutory maternity leave.

Recognised sole practitioners

Initial applications

5. Subject to paragraph 6 where a solicitor makes an initial application for a practising certificate or applies for a replacement of a practising certificate, and the certificate applied for is to include initial authorisation as a recognised sole practitioner, the fee payable under paragraphs 1, 2, 3 or 4 shall be increased by:
 - (a) £1,000 if the certificate is to commence in the period 1 November 2011 to 31 December 2011;
 - (b) £800 if the certificate is to commence in the period 1 January 2012 to 31 March 2012;
 - (c) £600 if the certificate is to commence in the period 1 April 2012 to 30 June 2012;
 - (d) £400 if the certificate is to commence in the period 1 July 2012 to 31 October 2012.

6. (a) This paragraph applies where a solicitor on or after 1 November 2011:
 - i. makes an initial application for a practising certificate or applies for replacement of a practising certificate, which includes an application for initial authorisation as a recognised sole practitioner; and
 - ii. the solicitor is succeeding to the whole or part of a practice of a recognised body or recognised sole practitioner.
- (b) Where in 6(a) the predecessor recognised body or recognised sole practitioner has paid a fee for the practising year 1 November 2011 to 31 October 2012, the fee payable under paragraphs 1, 2, 3, or 4 shall be increased by an application fee of £200.
- (c) Where in 6(a) the predecessor recognised body or recognised sole practitioner has not paid a fee for the whole or part of the practising year 1 November 2011 to 31 October 2012, the fee payable under paragraphs 1,2,3 or 4 shall be increased by an amount determined as if the solicitor were applying for renewal in accordance with paragraphs 7 to 10 below as appropriate, plus an additional application fee of £200.

Renewal of authorisation as a recognised sole practitioner

From 1 November 2010 recognised sole practitioners who apply to renew authorisation as such are required to pay a practising certificate fee under paragraphs 1, 2, 3 or 4 above and an additional sum which is calculated by reference to the firm's turnover. The way that the turnover is determined will depend on whether the firm is a continuing recognised sole practitioner, a new recognised sole practitioner renewing for the first time or a successor recognised sole practitioner. Paragraphs 7 to 9 below deal with the way that the fee is determined in relation to each of those categories.

7. (a) This paragraph applies where a Continuing Recognised Sole Practitioner makes an application for a practising certificate and the certificate applied for is to include renewal of authorisation as a recognised sole practitioner.

(b) The fee payable under paragraphs 1, 2, 3 or 4 shall be increased by the amount arrived at after taking the Turnover Figure and carrying out the calculations in respect of the relevant band in accordance with appendix 1.
8. (a) This paragraph applies where a New Recognised Sole Practitioner who first became authorised as a recognised sole practitioner after 31 October 2010 makes an application for a practising certificate and the certificate applied for is to include renewal of authorisation as a recognised sole practitioner.

(b) The fee payable under paragraphs 1, 2, 3 or 4 shall be increased by the amount arrived at after taking the estimate of the Turnover Figure for the first 12 months of practice and carrying out the calculations in respect of the relevant band in accordance with appendix 1.
9. (a) This paragraph applies where a Successor Recognised Sole Practitioner makes an application for a practising certificate and the certificate applied for is to include renewal of authorisation as a recognised sole practitioner.

(b) The fee payable under paragraphs 1, 2, 3 or 4 shall be increased by the amount arrived at after taking the Successor Turnover Figure and carrying out the calculations in respect of the relevant band in accordance with appendix 1.

Overseas Branch Offices

10. Where a recognised sole practitioner has one or more overseas branch offices, the fee payable under any of the applicable paragraphs above shall be increased by £200 in respect of each overseas office.

Application for the SRA to determine Successor Turnover Figure

11. Where a Notice of Succession does not include the agreement of all relevant firms to the apportionment of turnover the Notice shall be treated as an application for the

SRA to determine the relevant Successor Turnover Figure and the fee for the application is £250.

Late delivery of an accountant's report

12. Where a solicitor applies for a practising certificate at a time when section 11(4) of the Solicitors Act 1974 has effect because the solicitor has failed to deliver an accountant's report by such time or in such circumstances as prescribed by rules made under section 34(1) of that Act an additional fee of £200 must be paid when making an application for a practising certificate.

Application to registered European lawyers

13. The fee to be paid to the Law Society for initial registration or renewal of registration as a registered European lawyer shall be governed in all respects by the provisions of paragraphs 1 to 12 in the same way as the fee for a solicitor's practising certificate, and for this purpose:
 - (a) references to a solicitor shall be interpreted as references to a registered European lawyer or to a European lawyer applying for registration, and references to practice as a solicitor shall be interpreted as references to the provision of legal services in the United Kingdom under, or in reliance upon, a European lawyer's professional title as such;
 - (b) references to practising certificates and the issuing of practising certificates, shall be interpreted as references to initial registration or renewal of registration in the register of European lawyers, and references to a first practising certificate shall be interpreted as references to a lawyer's first registration in the register of European lawyers;
 - (c) paragraph 3 shall apply to a European lawyer who has, at any time during the practising certificate year commencing 1 November 2011, registered or re-registered as a registered foreign lawyer and who applies for his or her first registration as a registered European lawyer.

Application to registered foreign lawyers

14. The fee to be paid to the Law Society for initial registration or renewal of registration as a registered foreign lawyer shall, subject to paragraph 15 below, be governed in all respects by the provisions of paragraphs 1, 2, 4 and 12 in the same way as the fee for a solicitor's practising certificate, and for this purpose:
 - (a) references to a solicitor shall be interpreted as references to a registered foreign lawyer or to a lawyer applying for registration as a registered foreign lawyer, and references to practice as a solicitor shall be interpreted as references to the provision of legal services in England and Wales under, or in reliance upon, a foreign lawyer's professional title as such; and
 - (b) references to practising certificates and the issuing of practising certificates, shall be interpreted as references to initial registration or renewal of registration in the register of foreign lawyers, and reference to a first practising certificate shall be interpreted as reference to a lawyer's first registration in the register of foreign lawyers.

- (c) paragraph 3 shall apply to a European lawyer who has, at any time during the practising certificate year commencing November 2011, registered or re-registered as a registered foreign lawyer and who applies for his or her first registration as a registered European lawyer.

Application to registered foreign lawyers

- 15. The fee to be paid to the Law Society for initial registration or renewal of registration as a registered foreign lawyer shall, subject to paragraph 15 below, be governed in all respects by the provisions of paragraphs 1,2, 4 and 12 in the same way as the fee for a solicitor's practising certificate, and for this purpose:
 - (a) references to a solicitor shall be interpreted as references to a registered foreign lawyer or to a lawyer applying for registration as a registered foreign lawyer, and references to practice as a solicitor shall be interpreted as references to the provision of legal services in England and Wales under, or in reliance upon, a foreign lawyer's professional title as such; and
 - b references to practising certificates and the issuing of practising certificates, shall be interpreted as references to initial registration or renewal of registration in the register of foreign lawyers, and reference to a first practising certificate shall be interpreted as reference to a lawyer's first registration in the register of foreign lawyers.
- 16. The fee for a registered foreign lawyer practising mainly from an office or offices outside England and Wales shall be £100.

Interpretation

- 17. In this determination:

Continuing Recognised Sole Practitioner means a recognised sole practitioner who became authorised as a recognised sole practitioner before 31 October 2010 and who is not a Successor Recognised Sole Practitioner;

Firm means a recognised sole practitioner or a recognised body;

New Recognised Sole Practitioner means a recognised sole practitioner who first became authorised as a recognised sole practitioner after 31 October 2010 and who is not a Successor Recognised Sole Practitioner;

Notice of Succession means notice required under Regulation 4A of the SRA Practising Regulations or regulation 2A of the SRA Recognised Bodies Regulations or

Rule 8.3(f) of the SRA Authorisation Rules for Legal Services Bodies and Licensable Bodies.

Practising certificate means the certificate issued in accordance with sections 9 and 10 of the Solicitors Act 1974;

Practising certificate year means the period from 1 November to 31 October inclusive each year during which a practising certificate is operative;

Practising certificate fee means the sum to be paid by a solicitor for a practising certificate for the whole or part of a practising certificate year;

Practice as a solicitor means the provision of legal services under, or in reliance upon, the title "solicitor" whether as a principal, under a contract of employment or under a contract for the provision of services;

Period of leave equivalent to statutory maternity leave means a period of absence or leave which if a solicitor had been an employee would have been taken as statutory maternity leave;

Recognised body means a partnership, company or LLP for the time being recognised by the Solicitors Regulation Authority under section 9 of the Administration of Justice Act 1985 and the Recognised Bodies Regulations;

Recognised Sole Practitioner means a solicitor or REL authorised by the Solicitors Regulation Authority under section 18 of the Solicitors Act 1974 to practise as a sole practitioner;

Registered European lawyer means a European lawyer registered with the Solicitors Regulation Authority under regulation 17 of the European Communities (Lawyer's Practice) Regulations 2000;

Registered foreign lawyer means a lawyer registered with the Solicitors Regulation Authority under section 89 of the Courts and Legal Services Act 1990;

Successor Recognised Sole Practitioner means for the purposes of calculating the renewal fees, a recognised sole practitioner who after 31 October 2010 succeeds to the whole or any part of any recognised body or recognised sole practitioner, for value or otherwise, in any of the following cases:

case (I):

a recognised sole practitioner who acquires the whole or a part of one or more recognised bodies or recognised sole practitioners;

case (II):

a recognised sole practitioner resulting from the merger between the whole or part of two or more recognised bodies or recognised sole practitioners;

case (III):

a recognised sole practitioner remaining after it has split or ceded part of its practice to another recognised body or recognised sole practitioner;

Successor Turnover Figure means as set out in appendix 3; and

Turnover Figure means as set out in appendix 2

18. The singular includes the plural and vice versa.

Commencement

19. This determination shall come into force on 1 November 2011.

Appendix 1

Turnover Range (A)	Pay % * of Turnover within Band (B)	Minimum Turnover in Band (C)	Minimum Fee in Band (D)
A	0.80%	£0	£100.00
B	0.47%	£20,000.00	£260.00
C	0.46%	£150,000.00	£871.00
D	0.44%	£500,000.00	£2,481.00
E	0.41%	£1,000,000.00	£4,681.00
F	0.28%	£3,000,000.00	£12,881.00
G	0.24%	£10,000,000.00	£32,481.00
H	0.22%	£30,000,000.00	£80,481.00
I	0.20%	£70,000,000.00	£168,481.00
J	0.07%	£150,000,000.00	£328,481.00

* % is equivalent to 'divided by 100' (e.g. 0.65% = 0.0065)

Using the table above to calculate the firm fee based on the firm's turnover (T) as defined in Appendices 1 and 2:

1. Identify which band the turnover (T) falls in from column A.
2. Subtract the figure in the corresponding column C from (T).
3. Multiply this figure by the corresponding percentage in column B.
4. Finally add this figure to the corresponding figure in column D.
5. Firm fee then needs to be rounded to the nearest pound (i.e. if less than 50p then round down and if equal to or more than 50p then round up)

Formula: (T - C) x B + D

Example 1: For Turnover of £0:
 $(£0 - £0) \times 0.8\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.46\% + £871.00 = £1,101.00$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.44\% + £2,481 = £3,860.00$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.07\% + £328,481 = £418,867.00$

Appendix 2

Turnover Figure

The following paragraphs describe how the turnover figure that will be used for the purposes of determining the renewal fee should be calculated:

1. Turnover figure means a firm's total gross fees arising from work undertaken from offices in England and Wales.
 - *Gross fees includes:* all professional fees of the firm including remuneration, retained commission, and income of any sort whatsoever of the firm (including notarial fees). Work in Progress (WIP) should be included.
 - *Gross fees does not include:* interest, reimbursement of disbursements, VAT, remuneration from a non-private practice source, dividends, rents, and investment profit.
2. The turnover figures that will be used when billing firms in October 2011 will be based on **closed accounts**, audited where possible.
 - Closed accounts are defined, in order of preference, as:
 1. an audited set of financial statements
 2. an unaudited set of financial statements signed off by an accountant
 3. a submitted tax return for the year.
3. Bad debt should be handled under normal accounting procedures. Where it has been allowed for in the turnover figure for a firm's last closed accounting period prior to 1 November 2009, that is acceptable. If a bad debt has been discovered after closing the firm's accounts, then the turnover figure cannot be re-adjusted. Those adjustments could potentially be accounted for in the following year's closed accounts.
4. The turnover figure should, wherever possible, be for the last complete (12 months) accounting period prior to the 1 November 2010 (e.g. 31 March 2010). The latest acceptable annual accounting period end date is 31 October 2010.
5. The turnover figure should be an exact figure wherever possible. A figure rounded to the nearest £1,000 will be acceptable only if more detail is unavailable.
6. Those firms who do not have closed accounts which ended within the period from 1 November 2009 to 31 October 2010, should provide the SRA with an estimate of the turnover figure as well as the previous year's turnover figure based on accounts which have been closed. The SRA will determine at its discretion whether to use the

2008 figure if an updated 2009 figure based on closed accounts has not been received by 31 August 2011.

7. The turnover figure must be for a 12 month period.
 - (a) For a brand new firm (i.e. not a successor firm nor one resulting from change in status), an estimate for the first 12 months of practice (irrespective of whether this is after 31 October 2010) will be accepted; the basis upon which the firm has made the estimate should be provided to the SRA.
 - (b) If a firm has changed its annual accounting period, its latest closed accounting period prior to the 1 November 2009 will be shorter or longer than 12 months. The following approach should be used by the firm, providing an explanation of how they have derived their turnover figure:
 - Preferably, provide the turnover for the 12 month period immediately preceding the new accounting period end date (as long as prior to 1 November 2010)
 - Alternatively, if this is not possible then take the last closed accounts period prior to the 1 November 2010 and scale it appropriately (e.g. if the last closed accounting period was for six months then it should be doubled; if the last closed accounting period was for 15 months, then it should be divided by 15 and then multiplied by 12).
8. If a firm has a change in status (e.g. partnership to LLP, sole practitioner to partnership), then at renewal it should respond as if there were no change in status.

Appendix 3

Successor Turnover

Successor turnover is relevant where firms have changed through, for example, an acquisition, merger or split. Certain firms affected are required to submit a Notice of Succession to the SRA with an agreed apportionment of turnover among the affected firms.

As guidance successor turnover shall be calculated based on the Turnover Figures for each of the affected firms.

If a firm has succeeded to the whole or a part of one or more firms (e.g. through merger or acquisition), successor turnover will be calculated by combining the appropriate proportion of the Turnover Figure for each of the affected firms which has become part of the successor practice:

- In a simple merger between firms A and B, combine the Turnover Figures for each firm.
- In a merger of one firm (firm A) with part of another firm (e.g. one third of firm B) then firm A should add the corresponding proportion of firm B's Turnover Figure to its Turnover Figure (e.g. firm A's Turnover Figure + third of firm B's Turnover Figure)

For a firm which has split or ceded part of their practice to another firm and wishes this change to be reflected in a successor turnover figure, the successor turnover figure will be a proportion of the Turnover Figure, as long as it is clear how the Turnover Figure for such a firm is to be distributed between the successor firms. 100% of the Turnover Figure must be accounted for between the successor firms. For example:

- In a merger of firm A with one third of firm B then
 - firm B's successor turnover figure will be two thirds of its Turnover Figure, Firm A's will be its Turnover Figure plus one third of B's Turnover Figure
- Where firm A and one third of firm B become new firm C
 - firm A's turnover will be £0 (closed) and B's turnover will be two thirds of its Turnover Figure. Firm C's successor turnover figures will be the combination of A's Turnover Figure and one third of firm B's.

In a case where all successor firms agree on the apportionment of 100% of the Turnover Figures, then the SRA will accept the successor turnover figures.

In the case where all successor firms are unable to agree the apportionment of 100% of the Turnover Figures, then the SRA will treat the Notice of Succession as an application for it to determine the Turnover Figure for the purpose of calculating renewal fees. The SRA will determine this apportionment based on the information available and its decision will be final. Firms will not be able to renew recognition without an appropriate successor turnover figure being determined, as this is necessary to calculate the appropriate firms' fees.

Appendix 4: Determination of Sole Practitioner Fees [2011]

This determination is made by the Solicitors Regulation Authority Board under section 13ZB of the Solicitors Act 1974, with the approval of the Legal Services Board under section 51 of the Legal Services Act 2007.

- (1) Subject to paragraph (2), the fees under section 13ZB of the Solicitors Act 1974 for a certificated solicitor or a registered European lawyer who makes a **separate** application for initial authorisation as a recognised sole practitioner to commence during the period 1 November 2011 to 31 October 2012 shall be set at:
 - (a) £1000 if the authorisation is to commence in the period 1 November 2011 to 31 December 2011;
 - (b) £800 if the authorisation is to commence in the period 1 January 2012 to 31 March 2012;
 - (c) £600 if the authorisation is to commence in the period 1 April 2012 to 30 June 2012;
 - (d) £400 if the authorisation is to commence in the period 1 July 2012 to 31 October 2012.
- (2)
 - (a) This paragraph applies where a solicitor on or after 1 November 2011:
 - i. makes a **separate** application for initial authorisation as a recognised sole practitioner: and
 - ii. the solicitor is succeeding to the whole or part of a practice of a recognised body or recognised sole practitioner.
 - (b) where in 2(a) the predecessor recognised body or recognised sole practitioner has paid a fee for the practising year 1 November 2011 to 31 October 2012, the fee payable is £200.
 - (c) where in 2(a) the predecessor recognised body or recognised sole practitioner has not paid a fee for the practising year 1 November 2011 to 31 October 2012, the fee payable shall be determined as if the solicitor were applying for renewal in accordance with paragraphs 8 to 10 of the Practising Certificate Fee Determination 2011 as appropriate, plus an additional application fee of £200.
- (3) All terms in this determination are to be interpreted in accordance with the Practising Certificate Fee Determination 2011.
- (4) This determination shall come into force on 1 November 2011.

Appendix 5: Recognised Body Fee Determination [2011]

This determination is made by the Solicitors Regulation Authority Board under regulations 1.1(b) and 1.5 of the SRA Recognised Bodies Regulations 2009 with the approval of the Legal Services Board under section 51 of the Legal Services Act 2007.

Initial Applications

1. The fee payable by a body applying for initial recognition as a New Recognised Body is:
 - (a) £1000 on applying for initial recognition to commence in the period 1 November 2011 to 31 December 2011;
 - (b) £800 on applying for initial recognition to commence in the period 1 January 2012 to 31 March 2012;
 - (c) £600 on applying for initial recognition to commence in the period 1 April 2012 to 30 June 2012;
 - (d) £400 on applying for initial recognition to commence in the period 1 July 2012 to 31 October 2012, and

the renewal date for any such recognition shall be 31 October 2012.

2. (a) This paragraph applies when a body is applying for initial recognition on or after 1 November 2011 in the following circumstances:
 - (i) the body is succeeding to a practice of a recognised sole practitioner.
 - (ii) the application is being made by an existing recognised body which is changing its legal status; or
 - (iii) the application is being made by a Successor Recognised Body.
- (b) Where in paragraph 2(a) the predecessor sole practitioner or recognised body has paid a fee for the practising year 1 November 2011 to 31 October 2012, the fee shall be £200.
- (c) Where in paragraph 2(a) the predecessor sole practitioner or recognised body has not paid a fee for the practising year 1 November 2011 to 31 October 2012, the fee shall be determined as if the body were applying for renewal in accordance with paragraphs 3, 4 or 5, as appropriate, plus an additional application fee of £200.

Renewals

From 1 November 2010 recognised bodies which apply for the renewal of their recognition are required to pay a fee which is calculated by reference to the firm's turnover. The way that the turnover is determined will depend on whether the firm is a continuing recognised body, a new recognised body on first renewal or a successor recognised body. Paragraphs 3 to 6 below deal with the way that the fee is determined in relation to each of those categories.

3. The fee payable by a recognised body applying for renewal of recognition where it is a Continuing Recognised Body shall be determined by taking the Turnover Figure and carrying out the calculations in respect of the relevant band in accordance with appendix 1.
4. The fee payable on first renewal by a New Recognised Body which first obtained recognition after 31 October 2010 shall be calculated by taking the estimate of the Turnover Figure for the first 12 months of practice and carrying out the calculations in respect of the relevant band in accordance with appendix 1.
5. The fee payable by a Successor Recognised Body applying for renewal of recognition shall be determined by calculating the Successor Turnover Figure and carrying out the calculations in respect of the relevant band in accordance with appendix 1.

Overseas Branch Offices

6. A recognised body which has one or more overseas branch offices shall pay an additional fee of £200 in respect of each overseas office.

Application for the SRA to determine Successor Turnover Figure

7. Where a Notice of Succession does not include the agreement of all relevant firms to the apportionment of turnover the Notice shall be treated as an application for the SRA to determine the relevant Successor Turnover Figure and the fee for the application is £250.

Interpretation

8. In this determination:

Continuing Recognised Body means a recognised body which is not a Successor Recognised Body and in which either:

- (a) the number and identity of the managers has not changed since 31 October 2010; or
- (b) the only changes since 31 October 2010 in the number or identity of the managers are as a result of one or more managers leaving or joining the recognised body;

Firm means a recognised sole practitioner or a recognised body;

Manager means:

- (a) a partner in a partnership;
- (b) a member of an LLP; or
- (c) a director of a company;

Member in relation to a recognised body, means:

- (a) a person who has agreed to be a member of a company and whose name is entered in the company's register of members; or
- (b) a member of an LLP;

New Recognised Body means a recognised body which obtained recognition after 31 October 2010 and is not a Successor Recognised Body;

Notice of Succession means a notice required under regulation 2A of the SRA Recognised Bodies Regulations or regulation 2A of the Recognised Bodies Regulations or Rule 8.3(f) of the SRA Authorisation Rules for Legal Services Bodies and Licensable Bodies.

Recognised body means a partnership, company or LLP for the time being recognised by the Solicitors Regulation Authority under section 9 of the Administration of Justice Act 1985 and the Recognised Bodies Regulations;

Recognised Sole Practitioner means a solicitor or REL authorised by the Solicitors Regulation Authority under section 18 of the Solicitors Act 1974 to practise as a sole practitioner;

Successor Recognised Body means for the purposes of calculating the renewal fees, a recognised body which after 31 October 2010 succeeds to the whole or any part of any recognised body or recognised sole practitioner, for value or otherwise, in any of the following cases:

case (I):

a recognised body which acquires the whole or a part of one or more recognised bodies or recognised sole practitioners;

case (II):

a recognised body resulting from the merger between the whole or part of two or more recognised bodies or recognised sole practitioners;

case (III):

a recognised body remaining after it has split or ceded part of its practice to another recognised body or recognised sole practitioner;

Successor Turnover Figure means as set out in appendix 3

Turnover Figure means as set out in appendix 2.

9. The singular includes the plural and vice versa.

Commencement

10. This determination shall come into force on 1 November 2011.

Appendix 1

Turnover Range (A)	Pay % * of Turnover within Band (B)	Minimum Turnover in Band (C)	Minimum Fee in Band (D)
A	0.80%	£0	£100.00
B	0.47%	£20,000.00	£260.00
C	0.46%	£150,000.00	£871.00
D	0.44%	£500,000.00	£2,481.00
E	0.41%	£1,000,000.00	£4,681.00
F	0.28%	£3,000,000.00	£12,881.00
G	0.24%	£10,000,000.00	£32,481.00
H	0.22%	£30,000,000.00	£80,481.00
I	0.20%	£70,000,000.00	£168,481.00
J	0.07%	£150,000,000.00	£328,481.00

* % is equivalent to 'divided by 100' (e.g. 0.65% = 0.0065)

Using the table above to calculate the firm fee based on the firm's turnover (T) as defined in Appendices 1 and 2:

1. Identify which band the turnover (T) falls in from column A.
2. Subtract the figure in the corresponding column C from (T).
3. Multiply this figure by the corresponding percentage in column B.
4. Finally add this figure to the corresponding figure in column D.
5. Firm fee then needs to be rounded to the nearest pound (i.e. if less than 50p then round down and if equal to or more than 50p then round up)

Formula: (T - C) x B + D

Example 1: For Turnover of £0:
 $(£0 - £0) \times 0.8\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.46\% + £871.00 = £1,101.00$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.44\% + £2,481 = £3,860.00$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.07\% + £328,481 = £418,867.00$

Appendix 2

Turnover Figure

The following paragraphs describe how the turnover figure that will be used for the purposes of determining the renewal fee should be calculated:

1. Turnover figure means a firm's total gross fees arising from work undertaken from offices in England and Wales.
 - *Gross fees includes:* all professional fees of the firm including remuneration, retained commission, and income of any sort whatsoever of the firm (including notarial fees). Work in Progress (WIP) should be included.
 - *Gross fees does not include:* interest, reimbursement of disbursements, VAT, remuneration from a non-private practice source, dividends, rents, and investment profit.
2. The turnover figures that will be used when billing firms in October 2011 will be based on **closed accounts**, audited where possible.
 - Closed accounts are defined, in order of preference, as:
 1. an audited set of financial statements
 2. an unaudited set of financial statements signed off by an accountant
 3. a submitted tax return for the year.
3. Bad debt should be handled under normal accounting procedures. Where it has been allowed for in the turnover figure for a firm's last closed accounting period prior to 1 November 2010, that is acceptable. If a bad debt has been discovered after closing the firm's accounts, then the turnover figure cannot be re-adjusted. Those adjustments could potentially be accounted for in the following year's closed accounts.
4. The turnover figure should, wherever possible, be for the last complete (12 months) accounting period prior to the 1 November 2010 (e.g. 31 March 2010). The latest acceptable annual accounting period end date is 31 October 2010.
5. The turnover figure should be an exact figure wherever possible. A figure rounded to the nearest £1,000 will be acceptable only if more detail is unavailable.
6. Those firms who do not have closed accounts which ended within the period from 1 November 2009 to 31 October 2010, should provide the SRA with an estimate of the turnover figure as well as the previous year's turnover figure based on accounts

which have been closed. The SRA will determine at its discretion whether to use the 2009 figure if an updated 2008 figure based on closed accounts has not been received by 31 August 2011.

7. The turnover figure must be for a 12 month period.
 - (a) For a brand new firm (i.e. not a successor firm nor one resulting from change in status), an estimate for the first 12 months of practice (irrespective of whether this is after 31 October 2010) will be accepted; the basis upon which the firm has made the estimate should be provided to the SRA.
 - (b) If a firm has changed its annual accounting period, its latest closed accounting period prior to the 1 November 2010 will be shorter or longer than 12 months. The following approach should be used by the firm, providing an explanation of how they have derived their turnover figure:
 - Preferably, provide the turnover for the 12 month period immediately preceding the new accounting period end date (as long as prior to 1 November 2010)
 - Alternatively, if this is not possible then take the last closed accounts period prior to the 1 November 2010 and scale it appropriately (e.g. if the last closed accounting period was for six months then it should be doubled; if the last closed accounting period was for 15 months, then it should be divided by 15 and then multiplied by 12).
8. If a firm has a change in status (e.g. partnership to LLP, sole practitioner to partnership), then at renewal it should respond as if there were no change in status.

Appendix 3

Successor Turnover

Successor turnover is relevant where firms have changed through, for example, an acquisition, merger or split. Certain firms affected are required to submit a Notice of Succession to the SRA with an agreed apportionment of turnover among the affected firms.

As guidance successor turnover should be calculated based on the Turnover Figures for each of the affected firms.

If a firm has succeeded to the whole or a part of one or more firms (e.g. through merger or acquisition), successor turnover will be calculated by combining the appropriate proportion of the Turnover Figure for each of the affected firms which has become part of the successor practice:

- In a simple merger between firms A and B, combine the Turnover Figures for each firm.
- In a merger of one firm (firm A) with part of another firm (e.g. one third of firm B) then firm A should add the corresponding proportion of firm B's Turnover Figure to its Turnover Figure (e.g. firm A's Turnover Figure + third of firm B's Turnover Figure)

For a firm which has split or ceded part of their practice to another firm and wishes this change to be reflected in a successor turnover figure, the successor turnover figure will be a proportion of the Turnover Figure, as long as it is clear how the Turnover Figure for such a firm is to be distributed between the successor firms. 100% of the Turnover Figure must be accounted for between the successor firms. For example:

- In a merger of firm A with one third of firm B then
 - firm B's successor turnover figure will be two thirds of its Turnover Figure, Firm A's will be its Turnover Figure plus one third of B's Turnover Figure
- Where firm A and one third of firm B become new firm C
 - firm A's turnover will be £0 (closed) and B's turnover will be two thirds of its Turnover Figure. Firm C's successor turnover figures will be the combination of A's Turnover Figure and one third of firm B's.

In a case where all successor firms agree in the Notice of Succession on the apportionment of 100% of the Turnover Figures, then the SRA will accept the successor turnover figures.

In the case where all successor firms are unable to agree the apportionment of 100% of the Turnover Figures, then the SRA will treat the Notice of Succession as an application for it to determine the Turnover Figures for the purpose of determining renewal fees. The SRA will determine this apportionment based on the information available and its decision will be final. Firms will not be able to renew recognition without an appropriate successor turnover figure being determined, as this is necessary to calculate the appropriate firms' fees.

Appendix 6: Licensed Body Fee Determination [2011]

This determination is made by the Solicitors Regulation Authority Board under Rules 2.1 and 8.3 of the SRA Authorisation Rules [2011] with the approval of the Legal Services Board under section 51 of the Legal Services Act 2007.

Initial Applications

1. The application fee payable by a body applying for initial authorisation as a licensed body will be calculated as follows:
 - (a) an initial payment of £2,000, which is based on a day rate of £600, and includes a contribution towards the initial costs of the appellate body;
 - (b) £150 in relation to each candidate subject to approval by the SRA under Part 4 of the Authorisation Rules, excluding those deemed to be approved under rule 13.2;
 - (c) where the SRA's costs in considering the application exceed the amounts specified in (a) and (b) above then such additional costs will be charged at a day rate of £600;
 - (d) where the nature of the application means that the SRA has to seek external assistance, the full cost of that assistance will be charged;
 - (e) on initially considering an application, the SRA will notify those bodies whose applications it considers likely to exceed the amounts specified in (a) and (b) above and will indicate any additional sums payable in accordance with paragraphs (c) or (d) above;
 - (f) notwithstanding any additional sums notified under paragraph (e), the SRA may charge further additional sums in accordance with paragraphs (c) or (d) if unforeseen circumstances arise during the application process, however the SRA shall notify the applicant as soon as reasonably practicable as to the further liability to be incurred.

2. Appendix 1 contains information on the circumstances that may give rise to additional costs that may be chargeable under paragraphs 1(c) and (d) and the SRA may publish additional information from time to time.

Periodical fees

Licensed bodies are required to pay an initial periodical fee on authorisation which is calculated by reference to the firm's estimated turnover. Licensed bodies are also required to pay annual periodical fees by the prescribed date which is 31 October in any year. . Paragraphs 4 and 5 below deal with the way in which the initial periodical fee will be calculated for the period which runs from the date on which the SRA as a Licensing Authority can issues its first licence to 31 October 2012.

3. Subject to paragraph 5, the initial periodical fee payable by a licensed body shall be determined by:
 - (a) taking the estimate of the Turnover Figure for the first 12 months of business and carrying out the calculation in respect of the relevant band in accordance with appendix 2; and
 - (b) paying one twelfth of that amount in relation to each month or part of a month between the date of authorisation and 31 October 2012.

4.
 - (a) Where a licensed body has succeeded to the whole of the practice of a recognised sole practitioner or recognised body, the fee calculated in accordance with paragraph 4 shall be reduced by one twelfth of the firm fee already paid by the predecessor recognised sole practitioner or recognised body in respect of each month between the date of authorisation of the licensed body and 31 October 2012.

 - (b) Where a licensed body has succeeded to part of the practice of a recognised sole practitioner or recognised body, the fee calculated in accordance with paragraph 4 shall be reduced as set out in paragraph 5(a) above but the reduction shall relate to such proportion of the firm fee as the SRA shall determine taking into account any Notice of Succession or other information.

Overseas Branch Offices

5. A licensed body which has one or more overseas branch offices shall pay an additional fee of £200 in respect of each overseas office.

Interpretation

6. In this determination:

Appellate body means the body with the power, by virtue of an order under section 80(1) of the Legal Services Act 2007, to hear and determine appeals against decisions made by the SRA acting as a licensing authority;

Applicant body means a licensable body which makes an application to the SRA for authorisation in accordance with the Authorisation Rules;

Authorisation Rules means the SRA Authorisation Rules for Legal Services Bodies and Licensable Bodies [2011];

Candidate means a person who is assessed by the SRA for approval as an owner manager or compliance officer under Part 4 of the Authorisation Rules;

Firm means a licensed body;

Licensed body means a partnership, company or LLP for the time being licensed by the Solicitors Regulation Authority under Part 5 of the Legal Services Act 2007;

Material interest has the meaning given to it in the Authorisation Rules;

Notice of succession means a notice required under regulation 4A of the SRA Practising Regulations, or regulation 2A of the SRA Recognised Bodies Regulations or Rule 8.3(f) of the Authorisation Rules;

Permitted separate business has the meaning given to it in the SRA Code of Conduct

Recognised body means a partnership, company or LLP for the time being recognised by the Solicitors Regulation Authority under section 9 of the Administration of Justice Act 1985 and the Recognised Bodies Regulations;

Recognised sole practitioner means a solicitor or REL authorised by the Solicitors Regulation Authority under section 18 of the Solicitors Act 1974 to practise as a sole practitioner;

Regulated activity means (i) any reserved activity; (ii) any other legal activity and (iii) any other activity in respect of which a licensed body is regulated pursuant to Part 5 of the LSA.

Turnover Figure means as set out in appendix 3.

All other terms are to be interpreted in accordance with the SRA Handbook Glossary

7. The singular includes the plural and vice versa.

Commencement

8. This determination shall come into force on [the date on which the SRA is designated as a licensing authority].

Appendix 1

1. The initial payment of £2000 includes the costs that the SRA will incur in reviewing the application and considering whether, and if so how much, additional time and external assistance will be required. At the end of the review the SRA will notify the applicant of additional sums payable under paragraph 1 (c) and (d). Such estimate may be exceeded if unforeseen circumstances require additional time or external assistance.

2. The following list contains indicators of circumstances relating to the applicant body that may lead to the SRA seeking further information and incurring additional costs :
 - (a) proposed outsourcing arrangements
 - (b) proposed initial public offering
 - (c) proposed franchise model
 - (d) proposed multiple fee sharing and /or referral arrangements
 - (e) proposed multi disciplinary practice, involving other regulators
 - (f) the applicant is part of a group including other organisations or permitted separate businesses which could cross sell services and /or give rise to potential conflicts

This list is not exhaustive.

3. The SRA estimates that a combination of indicators that includes one or more of (a) to (d) above (moderate complexity) may require an additional 15 days of cost and an approximate additional charge of £9000.
4. The SRA estimates that a combination of indicators that includes one or more of (e) and (f) together with any of the other indicators (high complexity) may require an additional 30 days of cost and an approximate additional charge of £30,000.
5. Additional costs may also be incurred where candidates, or sources of funding are located overseas. These additional investigations may cost between £3000 and £5000 dependent on the jurisdiction.
6. Additional costs may also be incurred where there are complex ownership structures which require investigation in order to identify all persons who hold a material interest.

Appendix 2

Turnover Range (A)	Pay % * of Turnover within Band (B)	Minimum Turnover in Band (C)	Minimum Fee in Band (D)
A	0.80%	£0	£100.00
B	0.47%	£20,000.00	£260.00
C	0.46%	£150,000.00	£871.00
D	0.44%	£500,000.00	£2,481.00
E	0.41%	£1,000,000.00	£4,681.00
F	0.28%	£3,000,000.00	£12,881.00
G	0.24%	£10,000,000.00	£32,481.00
H	0.22%	£30,000,000.00	£80,481.00
I	0.20%	£70,000,000.00	£168,481.00
J	0.07%	£150,000,000.00	£328,481.00

* % is equivalent to 'divided by 100' (e.g. 0.65% = 0.0065)

Using the table above to calculate the firm fee based on the firm's turnover (T) as defined in Appendices 1 and 2:

1. Identify which band the turnover (T) falls in from column A.
2. Subtract the figure in the corresponding column C from (T).
3. Multiply this figure by the corresponding percentage in column B.
4. Finally add this figure to the corresponding figure in column D.
5. Firm fee then needs to be rounded to the nearest pound (i.e. if less than 50p then round down and if equal to or more than 50p then round up)

Formula: $(T - C) \times B + D$

Example 1: For Turnover of £0:
 $(£0 - £0) \times 0.8\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.46\% + £871.00 = £1,101.00$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.44\% + £2,481 = £3,860.00$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.07\% + £328,481 = £418,867.00$

Appendix 3

Turnover Figure

The following paragraphs describe how the estimated turnover figure that will be used for the purposes of determining how the periodical fee should be calculated:

1. Turnover figure means a firm's total estimated gross fees arising from regulated activities undertaken from offices in England and Wales.
 - *Gross fees includes:* all professional fees of the firm including remuneration, retained commission, and income of any sort whatsoever of the firm (including notarial fees). Work in Progress (WIP) should be included.
 - *Gross fees does not include:* interest, reimbursement of disbursements, VAT, remuneration from a non-private practice source, dividends, rents, and investment profit.
2. Applicant bodies are required to provide an estimated turnover figure in the application and the SRA will seek information to support the figure and explain the basis on which the body has made the estimate during the authorisation process. Where the applicant body is succeeding to any legal practice carried on by a recognised sole practitioner or recognised body or to a previously unregulated legal services business then the historic turnover figures for such businesses will be relevant in validating the estimated turnover for the new body.
3. The SRA may substitute an alternative estimated turnover figure for the purpose of the fee calculation where it reasonably considers that the estimated turnover figure produced by the applicant body does not fully reflect the true value of the legal services to be provided. The examples below indicate the sort of circumstances in which such a substitution may be made:
 - (a) The licensed body is part of a group of businesses which provide a range of services some of which may be bundled with legal services, where the legal services may be offered at a reduced rate or as a "free" service.
 - (b) The licensed body is part of an insurance company where some of the legal services may be supported by premium funding, rather than fee income.
 - (c) The licensed body provides a mix of regulated activities and other activities which are either unregulated or regulated by other regulators, and the

services provided may include a mix of such activities which may be bundled as in (a) above.

In these cases the SRA will seek further information to help it determine a fair estimate and will seek to agree the figure with the applicant body but in the absence of such agreement the SRA's decision shall be final.